ECONOMY

1996 ~~1997~~

# US study ranks SA low on 'economic freedom'

(49) Sowetan 2/1/96

## Investors encouraged to look to countries like Botswana and Mali

By Rose Umoren

A NEW STUDY by an influential thinktank with close ties to the American Republican party has declared most of Africa undeserving of foreign investment because it is "economically unfree" and too dependent on outside aid.

The report, by the rightwing Heritage Foundation in Washington, comes on the heels of a recent United Nations Conference on Trade and Development report declaring Africa the most profitable region for foreign investors

### Index of freedom

In its *1996 Index of Economic Freedom*, which grades 142 countries according to an index on "economic freedom," the Foundation says that it found only six African countries investment-compatible or "economically mostly free".

They are Tunisia, Botswana, Uganda, Swaziland, Benin and Zambia.

Like its 1995 pioneer, the 1996 index grades countries on a scale of one to 10 on various criteria: trade; taxation, monetary and banking policies; government consumption of economic output; capital flows and foreign investment; wage and price controls; property rights; regulation; and the black market.

Ten represents "economically repressive," one "most free". In between are "mostly free" and "mostly not free".

The study assumes that those countries which are economically most free are most likely to produce the most wealth.

Madagascar, Mali, Morocco and Mozambique join Tunisia and Botswana on a list of 24 countries around the world whose performance on the index improved most during the course of 1995.

The study describes these as "24 carat" countries and strongly recommends them to the international investor.

### IMF star performers missing

Absent from either list are such star performers of the International Monetary Fund and World Bank as Ghana, Ivory Coast, Ethiopia and Malawi.

This is partly because the study's nine criteria for assessing good investment locations differ somewhat from those of the two Bretton Woods institutions.

The Foundation's criteria, which it says are the products of research among investors and finance ministers, include dependence on development aid, external debt burden and currency strength. Political stability, growth rate, market size, currency convertibility, levels of domestic savings and infrastructure, make up the balance.

While the study asserts that "a strong local currency is valued by foreign investors", for example, the two Bretton Woods agencies have usually encouraged African governments to devalue their currency in order to boost exports.

### Strong local currency needed

"When investors convert local currency into international currency, they want it to have value," according to the Heritage report. "There is no sense in earning local currency that is worthless when exchanged for dollars or yen.

"A strong currency is also a sign of a healthy economy. A weak and declining currency raises import prices, deters foreign investment, lowers living standards and undermines business confidence".

According to the study, a currency is weak if it depreciates by more than 24 percent against the IMF's unit of account – the SDR (special drawing right) – over a year. Conversely, it is strong if it appreciates or depreciates by less than 12 percent. The currencies of most African countries have far exceeded the 24 percent benchmark.

Similarly, unlike the World Bank, the Heritage analysts believe development aid is bad for Africa insofar as it "distorts the economies of recipient countries." Dependence on foreign aid is "usually a sign of an unfree economy and resistance to reform", according to the report.

Ghana, for instance, has for about a decade depended on development aid from the Bank and other sources for its much-touted five percent growth rate. Its grade for the Heritage Foundation is therefore quite low.

Conversely, Mali, one of the "24 carat countries", recently announced that it may require no aid in 1996.

Development aid, the study says, "encourages a mentality of dependence that undermines thrift, industry and self-reliance, which are the characteristics of every successful developed country"

### Internal factors

It says "Africa's poverty is not the result of insufficient levels of foreign aid, weather patterns, or internal strife, but of African governments' pursuit of destructive economic policies that depress free enterprise".

That view is likely to be embraced by many Republican lawmakers who slashed US aid to Africa next year by about a third.

On external debt, the study says that a debt-service ratio higher than 20 percent is "constrictive". A 30 percent debt-service ratio is termed "unmanageable".

Most African countries fall into the "unmanageable" category, and the study says they thus find themselves in a catch-22 situation.

If they fail to service debt promptly or repudiate, their creditworthiness and attraction to investors drops. If they strive to honour the terms of the debts, this "could lead to a budget and fiscal crisis" such as many African countries have been undergoing.

The study thus appears to buttress on-going pressure for radical debt relief for the continent.

### Nigeria and South Africa

The continent's two giants – Nigeria and South Africa – are deemed "mostly not free" by the study.

But while it credits South Africa with growth and liberalisation after "several dismal years", the study says Nigeria is afflicted by a "political crisis" with its military-dominated regime of General Sani Abacha resisting demands for democratic change, mismanagement, corruption and falling per capita incomes.

Topping the index as economically free countries are Hong Kong and Singapore, followed by the western industrialised nations.

The study has unsurprisingly drawn the ire of the aid community. "Of all the countries listed as free on the index, only one has never received aid from the US and that is the US itself," Ann Kittlaus, spokesperson for the US Agency for International Development, said.

"We basically sustained South Korea (ranked 22nd and "free") for 30 years before and after the war. It is now a large trading partner," said Kittlaus.

– *Sapa-IPS*.

# Bill to curb govt say on provincial loans

(49) BD 9/1/96

Greta Steyn

CENTRAL government will no longer be able to exercise total control over provincial borrowing, in terms of legislation due before Parliament early in the session, after complaints from the Financial and Fiscal Commission.

The commission's representations to the parliamentary standing committee on finance late last year led to the appointment of a working group to fine-tune the draft Bill and to rewrite a key section.

ANC MP Rob Davies, who is a member of the finance committee, said yesterday that the Provincial Borrowing Powers Bill was being changed, so as to take away the finance minister's power to override the provinces should there be disagreement.

"The minister will retain a negative veto as no borrowing will be possible if he refuses, but his ability to set the provinces' borrowing totals unilaterally if they all disagree with him will be removed," Davies said.

The new draft Bill had not been presented to the full standing committee yet, but Davies believed it would have a smooth passage through Parliament.

It is scheduled to be debated before the Easter recess.

Davies said provincial borrowing would be decided by a loan co-ordinating committee which would be set up to ensure fiscal policy was consistent at all levels of government. The provinces would be represented on the committee. The idea was to reach consensus on an aggregate level of borrowing.

In terms of the original draft Bill, the minister would have the final say if consensus could not be reached. After the commission's submissions, the finance committee decided the total borrowing could be set only by the minister along with four provinces.

Continued on Page 2

## Bill

(49) BD 9/1/95

Continued from Page 1

"The change partly reflects the commission's concerns with provinces' accountability and responsibility for their own finances," Davies said.

A source said the commission had also been worried that provincial borrowing decided by the finance minister would be viewed as effectively carrying a guarantee. Davies said the original legislation had made it clear that a guarantee could not be assumed, unless it was explicitly given, as would be the case for foreign loans.

The commission has said care should be taken to avoid the provinces being reduced to spending agents of central government.

It has sought greater fiscal autonomy for the provinces. The draft final constitution explicitly prohibits provinces from charging surcharges on income taxes — one of the commission's key recommendations.

# SA scores 'mostly not free' rating on economic index

BD 11/1/96 (49)

Simon Barber

WASHINGTON — High levels of trade protection and income tax earned SA a "mostly not free" rating in the latest Index of Economic Freedom prepared by the Heritage Foundation, the conservative Washington think-tank influential with the Republican majority in Congress.

Authors Bryan Johnson and Tom Sheehy rank SA, Botswana, Zambia, Uganda and Benin on the index, which was launched last year to dissuade Congress from approving foreign aid to countries that failed to adopt investment-friendly policies.

This year's edition is also pitched as a guide to investors. It provides a snapshot of countries' adherence to the so-called "Washington consensus" on what constitutes sound economic policy.

Top honours this year again go to Hong Kong and Singapore. SA shares 66th place with Turkey, Peru and Colombia. Joint last, at 140th, are North Korea and Cuba.

Countries are scored on the basis of 10 factors on a scale of one to five The lower the score, the better. SA's scores average out at three, the same as last year, and on the borderline of "mostly free" and "mostly not free".

Trade policy is what really pulls SA back. It receives a provisional five plus for "very high levels of protectionism", pending the phase-in of tariff reductions it has promised to the World Trade Organisation.

High levels of income tax pushed the score in these areas up to an unhealthy four.

Under the heading "government consumption of economic output", SA gets a three, mainly because it owns too much. "State assets include the country's railways, national airline, broadcasting services and electric utilities .. there is unlikely to be significant privatisation any time soon."

SA gets a three plus for monetary policy ("moderate levels of inflation") and a respectable 2 under the heading of formal barriers to foreign investment.

SA's banking environment is accorded a three.

The authors note that government still retains price controls on a wide variety of goods. They are also concerned that new labour legislation may impose de facto wage controls. Nonetheless, under this section, they still see fit to award SA a two.

On the other hand, SA scores a three for the protection of property rights, which the authors fear may by weakened by the "redistributionist policies" of government and by changes in the consitution.

The authors consider the level of regulation on economic activity in SA to be relatively low and worthy of a two. They are satisifed that "most businesses can be started with a minimum of formalities" but are worried about affirmative action policies, however

Black market activity is often a symptom of economic unfreedom. SA scores a 3 in this department, owing to the residual effect of apartheid laws and continued trade restrictions that have encouraged smuggling of several goods, including textiles.

# Govt plans office to manage its debt

**Greta Steyn**

THE finance department is to set up a public cash management office to improve cash flow management, in a move to cut government's massive interest bill.

Finance deputy director-general Maria Ramos said yesterday the department was seeking Cabinet approval to establish the unit.

It would be a step towards creating a fully fledged debt management office.

"We want to minimise the cost of borrowing through matching cash flows and expenditure more closely.

"Just like any enterprise, government can benefit from improved cash management," Ramos said.

It was premature to speculate on new measures that could be introduced, but government would be looking at using idle cash balances in the public sector to reduce its borrowing requirements. It would also be keeping a smaller "float" with a view to reducing the interest paid on finance which would not be spent in the short term.

It is understood that idle cash balances outside central government might also be employed to reduce borrowing requirements.

Ramos said certain public sector enterprises had the expertise to make a valuable contribution to minimising the cost of servicing public debt through improved cash management techniques, and talks were taking place with them. She declined to say which parastatals were involved.

The finance department's cash management plan is part of a general approach to run the public sector more along business lines.

Ramos also said the department had established a framework for corporate governance in the public sector which would also be submitted to the Cabinet. "The emphasis is on accountability and transparency," she said.

The Reserve Bank, which acts as government's broker in the financial markets, has been trying to smooth its stock sales over the fiscal year from a

**Continued on Page 2**

## Debt

**Continued from Page 1**

previous habit of bunching most of the stock sales in the first couple of months. Ramos said the Bank was also being consulted on setting up a new cash management system. Once it was in place, "everyone, including the monetary authorities, will have much more information on the flows in and out of the markets", she said.

It is understood that the conflict of interest between the Bank acting in the market as government's broker, and the Bank acting on its own behalf for monetary policy purposes, will also be investigated

Market sources speculated that government might stop using the Bank as its agent in the markets Government could appoint brokers and bankers in the private sector to manage its stock sales, or handle the sales itself in the planned debt management office

Government's interest bill accounts for almost one-fifth of its spending and it is expected to increase by more than the inflation rate. That means real spending cuts are necessary if government is to keep its overall spending increase constant in real terms

## Western Cape councils 'face collapse'

# Local govt debt runs into the billions

BD 22/1/96 (49)

**Linda Ensor**

CAPE TOWN — Local governments nationwide had accumulated debts of about R3bn-R4bn and several local authorities in the Western Cape were on the verge of bankruptcy, sources said at the weekend.

The constitutional and provincial affairs department, responsible for sorting out the crisis, was hamstrung in its bid to deal with the situation because it had no clear picture of the extent of the problem, the sources said.

The department's media liaison officer, Izak Retief, said the department was still attempting to establish an accurate figure on the debt but this was difficult because of the scanty information available.

Official sources said some local authorities had not kept proper accounts, while in others such an "administrative mess" prevailed that it would take a long time to sort it out. Some local governments were so heavily in debt they should have stopped operations.

The local government debt, mainly due to the non-payment of rent and service charges, was largely separate from ballooning provincial deficits, estimated also to be in the region of R3bn. However, as local authorities normally carried some debt, not all the outstanding R3bn-R4bn was necessarily bad debt.

In the Western Cape, hundreds of millions of rands in debt had been accumulated by local authorities for services rendered, with Cape Town, George, Paarl and Worcestor being particularly badly hit.

Western Cape local government minister Peter Marais said he had compiled a memorandum on the situation which would be submitted to President Nelson Mandela and Finance Minister Chris Liebenberg by Western Cape Premier Hernus Kriel at a meeting scheduled for tomorrow. The R800m shortfall in the provincial health and education departments' budgets would also be discussed.

Marais said he had had several discussions with Provincial Affairs Minister Roelf Meyer but no additional money had been forthcoming. The provincial government itself was powerless to assist as it was not empowered to raise taxes.

"The situation is untenable and could lead to the complete collapse of local government in the Western Cape." The non-payment of service charges was spreading from the black community to coloureds, who saw no reason to pay if blacks were not doing so, Marais said.

In Cape Town the city council had been providing services to black townships on an agency basis but was owed about R100m for services.

# Praise premature in face of overspending

CT(PR) 23/1/96 (49)

By JOHN SPIRA

Johannesburg — The praise that has been heaped on the South African government for its fiscal restraint may not be entirely justified.

Econometrix, the economic research unit, says: "One needs to be .. careful in overstating the new government's oft-perceived success in maintaining fiscal discipline"

The fly in the ointment, one which points to the strong likelihood that the government will overshoot its 1995/96 budget deficit of R29,1 billion, or about 5,8 percent of GDP, is overspending by the provinces

This is particularly the case in those provinces which incorporate former independent homelands.

Finance minister Chris Liebenberg has said that the 1995/96 budgeted expenditure of R153,2 billion will probably be exceeded.

The state expenditure department has said that the provinces have sought to borrow an additional R3 billion

Figures for the first nine months of the present fiscal year are now available. They show that exchequer issues were 12,5 percent higher than they were in the comparable 1994/95 period and represent an overshoot of the 9,5 percent increse budgeted for expenditure in 1995/96.

Econometrix says that at this rate state spending for the entire fiscal year will come out at about R157 billion, or R4 billion more than budgeted.

Fortunately, it says, there also appears to be overshoot on the revenue side, as a result of higher-than-budgeted economic growth, which helps to neutralise some of the expenditure overruns.

### Higher

At the nine-month mark, revenue was 12,4 percent higher than for the comparable 1994/95 period, compared with the 10,6 percent increase budgeted for the entire fiscal year.

At this rate, Econometrix calculates, revenue would come out at about R125 billion, or R23 billion more than budgeted — excluding the sale of strategic oil.

Extrapolating the nine-month figures for the full fiscal year, the deficit would be R2 billion in excess of budget, excluding proceeds from the sale of strategic oil.

This would translate into a deficit of about R32 billion, or 6,5 percent of GDP, against the budgeted 6,1 percent of GDP.

Econometrix says: "Although an overshoot equal to 0,4 percent of GDP on the budget deficit is disappointing, it pales into insignificance when it is compared with ... the budget overruns incurred by the previous government.

"On the other hand, when it is borne in mind that expenditure so far this fiscal year could have been almost R2 billion higher, if not for the fact that most planned expenditure on the RDP has not been incurred, then the overrun on non-RDP expenditure assumes more significant proportions.

"One could argue cynically that if not for the government's inability to get the RDP off the ground, expenditure would have overrun budget by as much as R6 billion."

# SA blighted by budget deficit

M+G 26/1 - 1/2/96 (49)

Deficits are still the norm in many OECD member countries, and South Africa is no exception, reports **Simon Segal**

GOVERNMENT'S budget deficit, now likely to be above 6% of gross domestic product (GDP) for this fiscal year (5,8% or R29-billion was budgeted for last March), blights an otherwise impressive economic record that boasts the most buoyant economic growth, lowest inflation rate and largest net capital inflows in two decades.

Amid all the cheery economic news, government's finances are arguably the greatest barrier to the country's future prosperity. In a world where fiscal prudence is the trend, a 6% deficit figure — and there are some economists who talk about 6,5% — is a major turn-off to potential investors.

The major problems with a large public debt include "crowding out" private investment, adding to inflationary pressures, impairing incentives to innovate and invest, and undermining monetary policy and hence putting pressure on interest rates.

In its latest economic outlook, the Organisation for Economic Co-operation and Development (OECD) forecasts that only six of 19 developed economies it monitors will borrow more in 1996 than in 1992.

Deficits are still the norm among OECD member countries. All but Norway are expected to run deficits this year. With an estimated deficit of 8,6% of GDP Greece is the most profligate.

The United States is debating how to balance its federal budget by 2002, not whether to balance it. The European Union has set a 3% deficit ceiling before allowing member countries to join a common currency.

This is a far cry from South Africa where the government is in the uncomfortable position of having to borrow to meet the cost of servicing its debt. The interest bill (R28-billion) amounts to almost one-fifth of total spending.

At 58% of GDP, government's debt is just below the 60% mark that economists consider prudent before a country gets caught in a so-called debt trap. But the trend in South Africa is ominous — in 1980 to 1981 government debt was 30% of GDP.

Eight months into the financial year economists expect a revenue overrun of R1,5-billion to R2-billion (R124-billion was budgeted for). This is thanks to extra revenue from customs and excise and the fuel levy. But spending is up 12% compared to the budgeted 9,5%. Hence the growth in the deficit.

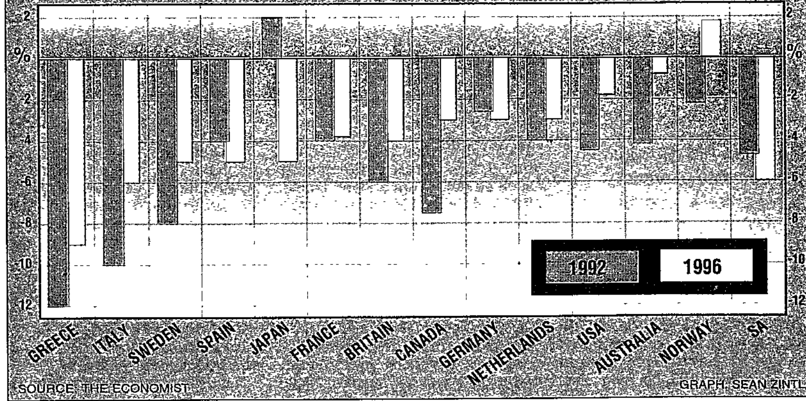
Economist Edward Osborn cites the main factors behind this deficit as provincial overspending, expenditure of votes from previous years brought forward into this fiscal year, the removal of import surcharges and lower value-added tax revenue.

Acknowledging that the deficit will be larger than he budgeted for, Finance Minister Chris Liebenberg cites homeland finances as a big problem. Second and third-tier government finances are in such a mess that some economists wonder about the real extent of the public sector debt.

Liebenberg still talks about meeting the five-year target of a 4,5% deficit by 1998/1999. This will be a tough task given that potential privatisation proceeds are limited and no major economist expects economic growth to surge at, say, over 5%.

Liebenberg thus has two main options to meet his goal — curb spending or raise taxes. Neither are attractive. Pressure to spend will only intensify towards the next general election scheduled for 1999.

Liebenberg and Reserve Bank governor Chris Stals can harp endlessly to investors about government's commitment to fiscal discipline but in the end the figures have to support the rhetoric. Investors are not convinced.




Fiscal deficits: South Africa's budget deficit is likely to be above 6% of the GDP for 1996

# Extra R1bn TBVC debt is uncovered

BD 30/1/96 (49)

Greta Steyn

GOVERNMENT had arrived at a figure of about R1bn in debt from the former TBVC states which had previously been unaccounted for after closing off their books, Deputy Finance Minister Alec Erwin said yesterday.

He said details about the figure would be made available by Finance Minister Chris Liebenberg. "The important point is that this does not represent overexpenditure on this year's Budget," he said.

Interviewed in Pretoria, Erwin appeared relaxed about provincial spending problems and fiscal policy in general. He indicated that the provinces' actual expenditure overruns would be much smaller than initial estimates.

"It looks like all the worms have now come out of the woodwork," Erwin said, referring to the financial minefield uncovered in the transition from apartheid regional governments.

Asked about government's statement to foreign creditors that the deficit for this year would be 6,1% of GDP, he said: "It will certainly not exceed that level. A small overrun of say 0,2 percentage points is no make-or-break situation."

Foreigners usually "applauded" this information on government's borrowing, which was "fantastic" in a country like SA. "We have already built up something of a track record."

On the situation in the provinces, he said he had been most impressed by their ability to cope with a very tight financial situation. "Gauteng did an amazing job in reorganising its budget." The province had managed to reduce its education spending overrun to a sixth of its original estimate. He confirmed spending overruns for all the provinces for education would be about R700m. The extra allocation for health

Continued on Page 2

## Debt

(49) BD 30/1/96

Continued from Page 1

would be "very low, lower than education, even though we started off in the stratosphere. All credit is due to the provinces," he said.

Asked whether central government's ambitious redistribution of resources from wealthy to poorer provinces had not been to blame for the health and education spending overruns in Gauteng and the Western Cape in particular, Erwin said problems were bound to be encountered during a transition period. The situation forced government to take a long hard look at the efficiency of spending on health and education generally.

On further spending reduction he said once the fat had been removed, one could reach a point where more cuts could cause damage. The last three budgets had set a "very tight" upper limit on expenditure.

He said there was a misconception about local government's debt, which was reportedly as high as R4bn. The local authorities had not taken up borrowings that needed to be serviced; their problem was the non-payment of services. Central government did not need to pick up the tab in the Budget, but in the long run the non-payment of services would become a fiscal policy headache. The absence of payment for services meant there would be difficulties in maintaining infrastructure, and capital expenditure needs would become bigger than would otherwise be the case.

"We are not dismissing the problem; it is very important that payment for services be revived. But this is not debt in the conventional sense and there will be no immediate budgetary effect."

# Debt trap ahead if SA doesn't mend its ways, bank warns (49)

South Africa is approaching a debt trap situation that could lead the economy to financial disaster, unless fiscal conditions improve over the next few years, Absa Bank reports in its latest Economic Spotlight. Star 3/2/96

A statement released yesterday said that while the Government's debt had risen to almost 60% of gross domestic product over the past decade, the situation was not irreversible.

It said determined policy measures implemented over a period of time to avoid sudden shocks to the economy could steer the economy away from the pending debt trap.

Government debt had risen from 35% to 58% of GDP over the past decade, causing interest payments to rise from 4% to nearly 7% of GDP. During the current fiscal year R34,2-billion would be spent on interest costs alone.

Absa said it was crucial for the state debt to be reduced, the primary deficit changed into a surplus, and inflation contained to avoid interest costs rising and secure economic growth.

An overall budget deficit of more than 4% for 1996/97 would aggravate the fiscal predicament, according to the Economic Spotlight. Analysts were expecting a budget deficit of around 6% to be announced at the Budget presentation next month. – Sapa

# SA's acceptance of globalisation vital to its economic growth

(49)

**JIM JONES in Davos**

BD 8/2/96

DEPUTY President Thabo Mbeki is right to be concerned over some of the possible effects of the increasing globalisation that has been the centre of debate at the annual meeting of the World Economic Forum in Davos, Switzerland, this past week. His concern, though, is not about globalisation that is gathering its own momentum and pace. It is that globalisation should not confirm or entrench the disparities between nations.

Speaking in Davos earlier this week, Mbeki made clear that no country (and SA in particular) can withdraw from the world's increasingly integrated capital market or from agreements such as those of the World Trade Organisation. To do so would be tantamount to inviting the integrating world to impose trade or investment sanctions.

Mbeki's endorsement and acceptance of globalisation and its consequences for SA were largely echoed by South Africans at the meeting.

Perhaps the principal consequence of globalisation is a progressive reduction in national self-determination. The activities of government and business will increasingly be determined by external influences — the convergence of national and economic strategies. If a reduction of the state's independence of action is seen as a political drawback of globalisation, it is more than offset by the economic advantages. As one delegate said: "The future is already here. It is just that it is unevenly distributed."

Globalisation should help redress that unevenness, but only if its opportunities are grasped wholeheartedly. In Europe there is a growing awareness of the problems that rising unemployment creates. Cyclical unemployment can rapidly degenerate into a far more intractable structural variety. But many European nations were apparently unaware of this as national social security systems helped cushion the unemployed from the harshness of no work.

In Europe the chickens are coming home to roost. This week consumer goods manufacturer Grundig announced massive lay-offs. Recently Daimler Benz announced unprecedented losses and profit write-offs. While motor manufacturers such as Volkswagen may have adopted more efficient manufacturing processes, those new techniques have still to be introduced by firms that supply Volkswagen with its parts and components.

The contrast with the US is palpable — America is confident. Its vibrant private sector firms may have suffered badly from competition, but they have already put in place many of the operating changes, services and infrastructure that are needed to give them an edge over competitors in Japan or elsewhere.

Technological change is increasingly seen by American corporate executives as necessary.

SEXWALE

Whereas it might lead to a resurgence of Luddism by individuals or unions affected by a redundancy of particular skills, it is apparent that technology also creates jobs and even allows the unskilled to become more competitive.

Disparities between the wages of skilled and unskilled people have certainly widened in the US and will almost certainly do so elsewhere. But unemployment rates have not risen in that country even though it has been on the frontier of technological creativity.

Certainly social policies need to be devised and put in place to assist those people who feel left out of society's mainstream. But that, according to the World Bank's chief economist Michael Bruno, has to be seen in the context that across the world those who do not lose out will be those who adapt to change.

Technological transfer, Bruno believes, is an integral part of globalisation as it allows previously disadvantaged countries to become internationally competitive.

This, arguably, is of crucial importance to countries in Africa that can count only on declining aid flows and that remain ignored by the rest of the world.

But the debate about national sovereignty and national cultures is heightened as seen by China's recent decision to restrict information flows from the international wire services and to restrict its own people's access to the Internet and cross-border satellite television programmes. And the reaction is not only from countries that do not subscribe to western democratic values. Germany has forced Internet provider Compuserve to halt delivery of electronic material the German government believes is pornographic.

Governments are spatially organised whereas the Internet is not. It becomes a matter of opinion whether the proposed Chinese Wall will prohibit access to information Beijing's mandarins consider subversive or inappropriate or whether it will simply delay the information flows that are crucial to economic success.

MBEKI

The still unresolved debate is whether governments can or should attempt to control the Internet. Just as countries that want to benefit from globalisation have to remove restrictions on human, financial, skills and technology movements so, too, do they need to remove restrictions on information flows.

As one delegate put it philosophically though hyperbolically: "America is succeeding because it embraces diversity. Japan is on the skids because it does not."

Paradoxically, perhaps, globalisation helps reinforce regional or cultural differences. Size is not all. Smaller regions can be competitive if they embrace and adopt new technologies.

The impetus to encourage foreign investment in SA is coming not only from government and business, but also from regional leaders. Gauteng premier Tokyo Sexwale and his Western Cape counterpart Hernus Kriel have become active international workers.

Though Sexwale might say disarmingly that he was in Davos more for the advantages that he can win for Gauteng than for the more esoteric debate on globalisation, his presence along with dozens of city, provincial and regional leaders from across the globe underscores an international realisation that regional initiatives are as or more important than national ones.

Gauteng's needs are different from those of a less-industrialised Free State or a divided KwaZulu-Natal. In contrast to a paranoid and xenophobic mainland China, SA's future can be seen to be depending as much on local decisions as on those of central government.

Plainly, SA cannot escape the currents of change. Though there may be some special interest complaints within the country, businessmen and economists here in the rarefied atmosphere of Davos view our decisions on trade liberalisation and competition as intelligent and necessary to enhance our international competitiveness.

Does that signify an official indifference to the welfare of national populations? If it does, it stands in sharp contrast to the strength, diversity and energy of the South Africans here.

# Last barrier to equality

CP 11/2/96 (49)

## Haves and have-nots – economy still divides SA

By BHEKIE MATSEBULA

SO IS apartheid dead?

Politically, yes – but economically there is still a great divide between black and white in South Africa, says the chief executive of the South African Institute of Race Relations, John Kane-Berman.

On the political front, blacks have taken almost full control – and the idea of white supremacy, that once powerful beast of the apartheid era, has been crushed, he says.

After the transfer of political power to blacks and the abolition of all repressive laws that provided the instruments to enforce apartheid against blacks, there is no room for white supremacy.

"It has been disempowered," says Kane-Berman

But he is less optimistic about the possibility of blacks taking full control of the country's economy.

### Major assets

Whites continue to control major assets which the State has failed to acquire for the benefit of black South Africans, he says.

"Whites still own most of the country's assets that are not owned by the State.

"Decades of Bantu education have ensured that levels of formal education are much higher among whites than blacks. Schools where most of the pupils are white are better endowed with teachers, buildings, equipment and other resources than schools where most or all of the pupils are black.

"Understandably, this state of affairs causes anger among blacks and frustration that the Government of National Unity has not brought about any radical improvement in the socio-economic circumstances of the vast black South Africans," says Kane-Berman.

### Affirmative action

There is a necessity for government to intervene in the issue of affirmative action, he says. The previously disadvantaged communities in South Africa must be given a chance to have a decent living.

"While blacks see such intervention as only fair and just, whites often feel threatened by it. It would be foolish to assume that this situation will not have an impact on race relations in the country," says Kane-Berman..

Although reconciliation between blacks and whites has become a topical issue, there are still signs that South Africans tend to treat crucial issues on racial terms, he says.

"The current bitter controversy at Wits (university) has seen people both on and off the campus take up positions on racial lines. Most whites seem to think Professor William Makgoba is a disaster."

Commenting on the establishment of the Truth and Reconciliation Commission, Kane-Berman says he hopes that it will not attempt to undermine race relations and that it will not be biased in its investigations.

# SA has potential to roll back poverty, says Sacob's Parsons

CT (BR) 19/2/96 (297) (49)

By Maggie Rowley

Cape Town — South Africa has the potential to achieve economic growth rates of 6 to 7 percent which would be necessary to alleviate unemployment and roll back poverty, said Raymond Parsons, the director-general of the South African Chamber of Business.

Addressing the Tygerberg Chamber of Commerce and Industry on Friday, Parsons said an estimated economic growth of 4 percent this year would see about 100 000 new jobs created.

"That is the good news. The bad news is that about 300 000 job seekers would come on to the market at the same time.

"We need much higher and sustained economic growth, together with the right labour policies to create employment on a much larger scale between now and the year 2000," he said.

The country's growth performance this year must not just be a flash in the pan, which would simply level off next year, he said.

The business community wanted a Budget which did not shock, did not tax savings and strengthened fundamentals, Parson said.

Proposal to slash fiscal deficit

# Business lays out strategy for growth

(49)

BD 1/3/96

Greta Steyn

BUSINESS sent a strong signal to government yesterday that dramatic economic reforms were needed to push economic growth above 5% — the pace required to cut unemployment.

The SA Foundation, representing captains of industry, released an economic growth strategy yesterday, in the same week that Deputy President Thabo Mbeki gave broad outlines of government's growth and development plan. Anglo American chairman Julian Ogilvie Thompson said he hoped the document would be incorporated in government's strategy.

The foundation's strategy has some ingredients that are already being implemented, but others that would require radical policy changes. The most controversial proposals are on creating labour market flexibility, slashing the fiscal deficit and raising billions of rands through brisk privatisation.

The group argues that the dismantling of exchange controls should be completed in about 18 months' time.

Presenting the programme, Old Mutual economist David Mohr said: "SA has the highest unemployment rate in the world. That means there is something wrong with the labour market." The foundation's medicine was to introduce flexibility by creating a second tier for new labourers. Rules on minimum standards and wages and extending industrial council agreements would have to be scrapped or softened for new workers. The rights and wages of existing workers would stay untouched.

Anglo consultant Jim Buys said: "It is one of the most politically challenging recommendations."

On government's finances, the document proposed the deficit as a percentage of GDP be slashed by 1,5 percentage points a year — compared with the present annual target of 0,5. The present objective of a deficit of 4,5% of GDP was "far too high — even if it is

Continued on Page 2

## Foundation

(49)

Continued from Page 1

BD 1/3/96

achieved, which is far from certain".

Foundation president Conrad Strauss said: "There is a strong Keynesian undercurrent in government today ... the commitment to cutting the deficit seems to be slipping."

A radical reduction in the deficit should be brought about by spending cuts, including big cuts in the number of public servants. A portion of the proceeds from privatisation could be used to fund retrenchment packages.

Taxes had to be cut, with VAT the only option for an increase — though this would be politically unpopular. Anglo American Industrial Corporation chairman Leslie Boyd said government appeared to have "some difficulty in taking on the unions over VAT".

The document argued for a safety net for the poorest citizens, which should include a "low level" public works programme. An important difference between it and government's growth and development strategy was the emphasis government placed on public investment in infrastructure.

Government should proceed immediately with privatisation, kicking off by selling the Industrial Development Corporation's R4,5bn worth of listed equity holdings. This would have no implications for jobs, and the same would be true for Safcol (worth R1bn), and Denel (about 4bn). Selling "non-sensitive" assets could raise R20bn quickly. Privatisation proceeds should mainly be used to cut government's debt, which would help relieve the interest burden.

Some gains should be channelled to an RDP-type fund for investment in social infrastructure, or be retained in a restructured IDC. In the second phase of privatisation, attention should turn to the trickier cases of Transnet, Telkom and Eskom.

The foundation presented its strategy as five pillars of growth — the legal framework, macroeconomic policies, efficient government, competitive markets and outward orientation.

See Page 6
Comment: Page 16

# Union officials thrash out position on budget

ARG 4/3/96 (49)

**ESTELLE RANDALL**
**Labour Reporter**

JOHANNESBURG. — Trade union leaders are meeting this week to thrash out a common position so they can put their stamp on next week's national budget.

Deputy president Thabo Mbeki today opened the week-long meeting of about 100 senior trade union leaders from the Congress of South African Trade Unions (Cosatu), the National Council of Trade Unions (Nactu) and the Federation of South African Labour (Fedsal).

The trade union leaders are expected to formulate labour's approach to the budget. Issues at stake are taxation, the lowering of tariffs in trade with other countries, job creation and the restructuring of state enterprises.

The government is understood to have held meetings with labour and business on the budget.

Proposals on the table include the maintainence of VAT at 14 percent, that personal tax on lower and middle income earners be reduced and that there be a 0,75 percent levy on retirement fund assets for one year.

Further bilateral meetings between labour and government are expected before budget day on March 13.

Today Mr Mbeki will brief union leaders on government's growth and development strategy, discussed at last week's meeting of cabinet ministers and senior government department personnel.

The government's main targets for growth are the creation of 300 000 to 500 000 jobs a year by the year 2000, sustained annual GDP growth of six percent by then, a doubling in the share of national income in the poorest households and basic household infrastructure to all by 2005.

In outlining the targets Mr Mbeki said achieving them would require significant trade-offs and sacrifices.

Big business, in the form of the SA Foundation, has since argued that they already compromised too much over the new Labour Relations Act and would be less compromising over proposed laws on minimum employment standards and affirmative action.

The SA Foundation has argued that economic growth accompanied by employment growth is possible only if a low wage strategy is adopted and minimum labour standards are not rigidly enforced throughout the economy.

Discussion at the labour leaders meeting will also focus on privatisation of state enterprises. Progress reports on negotiations in sectors where state enterprises exist will be tabled and assessed.

# Budgets should not increase — experts

Linda Ensor (49) BD 5/3/96

CAPE TOWN — The main problem confronting key government departments was to build capacity to absorb funds, and they should not receive large increases in their allocations in the forthcoming Budget, experts have suggested.

Writing for Budget Watch, a newsletter published jointly by Idasa and University of Cape Town's Budget Project, the experts argued that the problems in housing, policing and education could not be solved simply by throwing more money at them.

Stellenbosch University economist Servaas van der Berg said the first priority in the education department was to get the structures, administration and teachers working.

On housing, Centre for Policy Studies researcher Mary Tomlinson said that in view of the sizeable amount of the housing allocation that remained unspent from this year's Budget (R2,8bn), it would probably attract a smaller slice next year.

"At best the housing sector will keep the same level of allocation as last year. More likely it will be scaled back to reflect the slower than expected pace at which the ministry has performed."

UCT's Centre for Conflict Resolution researcher Peter Batchelor also did not believe there would be a real increase in the police budget, which last year totalled R8,85bn.

UCT health researchers Bupendra Makan, Nicole Valentine and Joses Kirigia thought it unlikely that the slice health took of the Budget last year (12,4%) would increase dramatically over last year "given the increasing rate of population growth, limited tax base and obligations to service government debt".

**NEVER TOO LATE** *Cosatu president John Gomomo with general secretary Sam Shilowa*

PHOTO: JOHN WOODROOF

BD 7/3/96

# Still time to influence Budget, says Shilowa

(49)

By James Lamont

Johannesburg — Sam Shilowa, the Cosatu general secretary, said yesterday the labour movement could still influence the contents of the final Budget, which is to be announced next Wednesday

Shilowa said: "Cosatu still has an input at this late stage; it is never too late." He denied speculation that Cosatu would call for industrial action ahead of the Budget.

Labour representatives met the government on Tuesday night to discuss the controversial issues of the Budget, in what constituted the first direct, formal talks the unions have had on the Budget. A further meeting with the finance ministry is expected before next Wednesday.

Shilowa would not comment on the substance of any of the talks without a mandate from his fellow negotiators — the National Council of Trade Unions (Nactu) and the Federation of South African Labour Unions (Fedsal).

He spent yesterday afternoon in last-minute discussions with top officials from Cosatu, Nactwu and Fedsal about the Budget. The results of this meeting will be presented to the plenary session of the Cosatu labour negotiations school in Johannesburg today.

Representatives from the trade unions will then meet once more with the government, said Cosatu president John Gomomo.

Trade unions were concerned over an increase in the VAT rate as this greatly affected lower-income earners. The unions also pushed for the zero rating of a greater number of items, particularly if VAT was increased.

They are also opposed to the government's use of the Budget to spur industrial restructuring initiatives, particularly as they related to social components and supply side measures.

The unions expressed concern in Nedlac that R2,9 billion had been rolled over in the Budget from the inefficient housing department.

# R1,5bn for Palabora copper mine

CT (BR) 7/3/96

By AP-Dow Jones

London — Palabora Mining Company has been given the green light to go ahead with the R1,5 billion development of an underground copper mine at Phalaborwa in the Northern province

Palabora has not decided how it will fund the R1,5 billion project, but it said shaft sinking and underground development would begin in June 1996, with full production timed to coincide with closure of the open pit in 2002.

In another development, Anglovaal — the mining investment company — announced yesterday it would go ahead with the development of a new nickel, copper, cobalt and platinum mine in Mpumalanga province in a joint venture with Anglo American Corporation.

Anglovaal said in a statement the new mine would cost around R140 million to develop and that full production could be expected by the first half of 1997.

The Mpumalanga prospect is owned by the Nkomati joint venture comprising Anglo American and two Anglovaal subsidiaries, Middle Witwatersrand (Western Areas) and Eastern Transvaal Consolidated Mines.

"It is envisaged that the full production rate of 10 000 tons a month of ore milled, resulting in approximately 3 000 tons a month of concentrate, will be reached during the first half of 1997," Anglovaal said.

GROWTH FOR ALL A COMPREHENSIVE ECONOMIC STRATEGY

# Too Big a Challenge for Half Measures

FM 8/3/96 #(49)

**Bring the jobless in from the cold**

There was an extraordinary meeting of objectives between government and big business this week, even if the means of achievement diverged substantially. Business left politicians all but speechless with the swiftness, rigour and depth of its economic appreciation and of consequent policy proposals

Last week, Deputy President Thabo Mbeki expressed the need for a doubling of SA s growth rate by the end of the century to create a vast number of new jobs quickly He was vague about how to achieve this, save through a rather sentimental expression of sacrifice and redistribution

Within days, Mbeki had not a blueprint but a comprehensive policy For the SA Foundation — representing the country s 50 largest companies — produced a document that sets out in detail why Mbeki's targets need to be met and how this can be done with the minimum of sacrifice

They include

❑ A carefully crafted policy aimed at encouraging savings and thus investment

❑ Sound financing through a reduction in government spending and debt

❑ Increased competition through privatisation and a novel approach to balancing supply and demand for labour

But these measures come as a package Adopting a piecemeal approach to economic policy says the foundation will not work

They are contained in the foundation s new *Growth for All* economic strategy document released last week

The document argues that unless SA changes the rules radically not even a high-road scenario will save us from the continuing flood of untrained and out-of-work

It sets out a five-pillar programme to restructure the economy — and transform growth prospects If it is implemented, SA can approach the ambitious goals — of 6% annual growth by the year 2000 and the creation of 500 000 jobs a year — set by Mbeki

The foundation says the alternative — given even relatively optimistic assumptions — is annual growth of only 3% over the next decade, a rise in unemployment from 32,7% in 1994 to 40,4% in 2004 and growth of less than 1% a year in government spending per person

"This is a recipe for economic stagnation with higher unemployment and poorer social conditions for much of the population "

What SA needs, it says, is a development strategy for 1996-2015 which can deliver rapid and sustained growth of 5%-6% and job growth of 3,5%-4% — which is rapid enough to cut unemployment markedly "This would more than double per capita incomes "

The problem is that, compared with countries which have similar resources and are at comparable levels of development, SA has grown slowly "The choice of countries or time periods makes little difference to the results By any comparative standard SA performs poorly "

Measures of performance show its

❑ Share of world industrial exports fell from 0,6% in 1955 to a mere 0,25% by the early Nineties, and

❑ Investment levels crashed from 30% of GDP in the late Seventies to less than 16% in 1993

"Growth numbers are weak but the effects of growth on the living standards of the population have been even worse SA has always been a highly unequal society and, by some measures is still the most unequal economy "

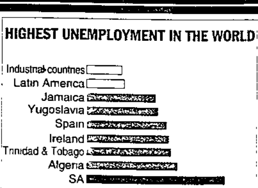
In 1993, the richest 10% of the population enjoyed average incomes about 67 times as high as the poorest 20% Almost half of the population was living in poverty

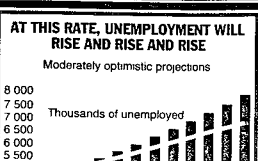
Little has changed Despite the successful political transition and the present period of growth, SA faces a social and economic crisis The measure is the scale of present and future joblessness

Unemployment of more than 30% is of extraordinary proportions says the document Few other countries have ever suffered unemployment above 20% and in these few it usually reflected macro-economic crises and fell rapidly thereafter

"Apart from SA the only main countries for which unemployment rates of more than 20% were

## THE PROBLEMS








slack nontraditional investment, the ratcheting up of unemployment over the business cycles and rising long-term unemployment have characterised SA's labour market performance over the last two decades

"The difference is that population growth in SA is far higher than in Europe, so the inflows into unemployment are massive — often well over half of all new entrants to the labour market

"In Europe, where population growth is modest, the inability of the Continental model to provide new jobs has caused unemployment to drift up

"By contrast, in SA, similarly slow job creation has sent unemployment soaring "

Another controversial proposal contained in the document relates to the Budget deficit — and the need to sharply reduce public-sector employment

Though this will worsen unemployment at first, the reduction in government consumption spending will give the private sector more scope for growth — and thus for job creation

The document points out that government spending in developing countries averages about 26% of GDP but is 31% in SA

Government "simply has far too many employees There is a huge need to eliminate overstaffing and replication by cutting tens of thousands of civil servant jobs

"In the short term, retrenchment costs might add to the total wage bill One way of cutting the deficit while temporarily raising the wage bill would be through dedicating some privatisation receipts to retrenchment costs "

These drastic remedies are needed because the public-sector deficit is already too high, at about 6% of GDP And there is little more to be done on the revenue side — high tax rates already make SA uncompetitive (see graph) Revenue can be stimulated only by higher growth and better collections

Deficits in SA have bucked the new world trend and moved up on average since the early Eighties (see graph)

The Finance Department's target of a Budget deficit of 4,5% of GDP in 1999 looks way too high, even if it is achieved — which is far from certain

"Soaring deficits have driven total government debt from 30% of GDP in the greater part of the Eighties to more than 50% in the Nineties and the trend is sharply up

"If revenue rises at the same rate as gross domestic product and the real interest rate on the debt is higher than the economy's growth rate, the debt burden will continue to escalate.

"Sooner or later, this trend will have to be brought under control Well before the end of the century, government will be forced to slash the deficit and confront its debt problem "

The other three reforms needed are

❑ Action on crime and violence In the longer term, this requires appropriate labour market and educational policies What is needed at once is clear evidence of fair and decisive action by the State and its institutions, better law enforcement a more sophisticated information system and better equipment and the reform of the systems of the administration of justice and of prisons,

❑ A "well handled privatisation programme which would serve as a performance catalyst for the economy and help government escape the looming debt trap ' The document points out that this does not have to deprive poor people of certain services

'It is easy to combine private competition with expanding services to the poor and the efficiency gains can be shared '

Existing subsidies for the poor "are not eliminated but made overt," perhaps through a levy on all users, and

❑ A vigorous export drive This would require an appropriately valued currency and the implementation of the market-led measures already proposed

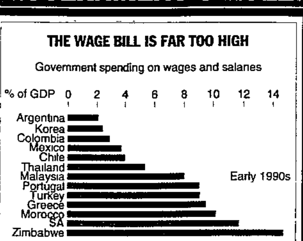
Policy co-ordination will help avoid hardship from the discontinuities of piecemeal reform

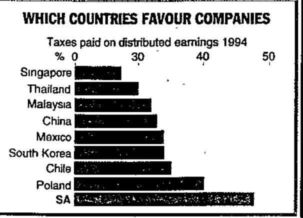
This approach is not consistent with the RDP But the benefits envisaged by the RDP are more likely to be achieved through these pillars of wisdom

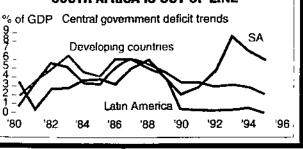
To acquire credibility the programme must be driven from the top through an inspired leadership able to persuade ordinary folk that the extent and durability of eventual benefits outweigh short-run hardships

Government may well wish this plan had never been published For investors will interpret its rejection as a repudiation of hard and extensive experience elsewhere That could be costly ■

## GOVERNMENT'S ROLE



More than R6bn rolled over

# Call for probe into failure of govt delivery

(49)

BD 8/3/96

Linda Ensor

CAPE TOWN — Rollovers of government department funds amounted to between R6bn and R8bn and departments could not expect additional funds in next week's "spend smarter" Budget, it was learnt yesterday.

Disclosing rollover figures, parliamentary finance standing committee chairman Gill Marcus said government did not need to borrow money for departments to do their work. What was needed was an investigation into why delivery was not taking place.

Deputy finance director Maria Ramos agreed, saying the emphasis should be on "spending money smarter", a strategy which did not require additional borrowing or a larger Budget deficit. The rollovers, Ramos said, indicated that there were no delivery systems. And in a further hint of what taxpayers might expect next week, she said there was little scope for government to tax people more.

Ramos and Marcus participated in a debate on public debt management with Edey Rogers economist Edward Osborne, who stressed that a radical cutback in expenditure was the only way to get the Budget deficit to 5,8%.

Ramos highlighted a reduction in the Budget deficit as the key fiscal policy issue facing government. By end-March the total national debt of R280bn would represent 56% of GDP, compared with 54,9% at end 1994/95. The cost of servicing the debt represented between 18-20% of the Budget. While the finance department did not consider SA to be in a debt trap, it believed that if there was no progress in reducing the deficit or if there was an expansionary fiscal policy, SA would develop serious problems.

"I cannot see the rationale for continuing to raise more debt when we can't manage it efficiently," Ramos said, adding that it would be "quite foolish" for government to adopt an expansionary fiscal strategy which carried no job creation benefits. She said government spending would not bring sustainable job creation, and suggested that supply side measures might be the best means to achieve this. These could include promoting a mix of investment in small and medium enterprises and export-orientated industries, as well as devaluing the rand.

Another priority was to maintain foreign investor confidence in SA given the problem on the current account of the balance of payments, which was kept from crisis only by capital inflows. With only seven weeks of reserves, SA was very vulnerable to a loss of foreign investor confidence.

Ramos said the original debt of the

Continued on Page 2

## Rollover

(49)

Continued from Page 1

BD 8/3/96

TBVC states of R13bn had been reduced last year through refinancing by treasury bills to R5bn. The remainder would be refinanced this year, although the national debt would rise by an estimated R1,1bn which was owed by the self-governing states.

Finance Minister Chris Liebenberg would be announcing savings in debt costs through improved debt management, which she said was "exciting".

Ramos said a fundamental review of debt management policy was under way and the relationship between the finance ministry and Reserve Bank was being looked at, with market reforms to make debt management more efficient. One of the long-term aims was to separate institutionally the management of government debt and the implementation of monetary policy, both being undertaken by the Reserve Bank.

A cash management office was being set up and the Cabinet had approved a state dividend policy.

"Even a small improvement of debt management can over time have huge benefits to the fiscus," she said.

# Skimpy notes do little to help balance govt books

(49) BD 8/3/96

TIM COHEN
in Cape Town

EVERY year, all government departments are required to justify to Parliament changes to their budgets. Collectively, this process is known as the adjustment estimates, and partly reflects departments' ability (or lack thereof) to stick to plans set out in the Budget.

It also reflects expenditure which was completely unforeseen at the time of the Budget announcement. Changes have to be justified and voted on by Parliament.

In justifying their figures, departments are required to provide explanatory notes. These "explanations", usually less than half a dozen pages, are artworks of obfuscation, and usually explain very little. For example, a R1bn increase in the health department's Programme 6: Regulation, Services and Programmes is "explained" in 26 lines.

"As a result of the restructuring of the department, this programme was created to make provision for the new line functions of the department," the note states. In the event, R1,5m was spent on administration, R546m on nutrition, R21m on HIV/AIDS and sexually transmitted diseases and R28m on something called "national health services".

There is no explanation of why "national health services" required an extra R28m, nor for any of the other items listed. It would be impossible to determine, for example, where the controversial Sarafina 2 play fitted into the budget. One expects that it would form part of the R21m devoted to HIV/AIDS, but there is no way of knowing for sure.

The system seems to be designed to not explain anything, rather than to facilitate an understanding of how taxpayers' money is spent. The amounts involved are so cursorily described and so breathtakingly large, parliamentarians are left more bewildered than reassured.

Surely, it could be asked. all that needs to be done is to obtain the information from the department concerned? In fact, this proves much more difficult than it sounds. Struck by some figures in the "explanatory notes" of the housing budget, I phoned the housing department for an "enhanced explanation". The figures showed that overseas trips by Housing Minister Sankie Mthembi-Nkondo cost (presumably over and above the planned expenditure) R135 000. Housing director-general Billy Cobbett's overseas trips cost even more, at R170 000.

In response to inquiries, a department finance director was very courteous, but his explanation consisted of the refrain: "I am not authorised to speak to the Press." The reason given was that government departments want to be heard speaking with one voice; officials are therefore banned from speaking to the Press in case they say something not authorised. So, every department has a media officer.

Unfortunately, in the housing department, no media officer has yet been appointed.

Assistance came from an unexpected quarter. The figures caught the eye of ANC MP Ben Turok. Never one to shy away from controversy, Turok asked a sarcastic question in Parliament. After listing the figures, Turok said: "My question is: Are we building houses overseas?"

The department was forced into action, and Cobbett issued a news release breaking down the expenditure. The minister had travelled abroad six times for a total of 35 days in the 14 months she had been in office, he said. In total, the expenditure came to R53 000 and although entitled to travel first class she had travelled business class.

This is all very well, except that this figure does not tally with the R135 000 as set out in the "explanatory notes". Cobbett did say the costs excluded a trip thought to have lasted two weeks to New York. Did this one trip really cost R82 000? Cobbett also did not explain his own overseas trips or his own domestic travel and subsistence expenditure of R250 000.

How one spends R20 000 a month travelling inside SA is difficult to fathom, but the point is not to single out the housing department, because all departments are equally to blame. Taking another example at random, the trade and industry department provided this one-line explanation: "Legal expenses in respect of the bolts and nuts case R1m" — as if everybody knows all about the "bolts and nuts case".

The point is that government departments seem to think that by providing Parliament with only the most skimpy information possible on expenditure and over-expenditure, they are saving themselves a lot of bother by not having to answer difficult questions.

If fact, the opposite is true. By providing only limited information, when departments are found out, as they sometimes are (witness the Sarafina 2 debacle), they are automatically forced onto the defensive. They have to fight to be heard over an inevitable din of protest and must overcome scepticism just to place the facts on the table.

If government considers it necessary to tax senior teachers and policemen at the maximum marginal rate, it could at least explain clearly what is being done with the money.

LETTERS

# Cosatu and deputy finance minister meet

(49) CT (BR) 8/3/96

BY JAMES LAMONT

Johannesburg — Representatives of South Africa's trade unions met again yesterday in Johannesburg with Alec Erwin, the deputy minister of finance, ahead of next week's Budget.

Both Erwin and Sam Shilowa, Cosatu general secretary, declined to comment on the talks, which also involved officials from the National Council of Trade Unions and the Federation of South African Labour Unions.

Shilowa, however, did confirm that the parties had discussed the forthcoming Budget. He said that he believed the unions could still influence the final contents of the Budget.

He said the unions would issue a statement before the Budget announcement.

A union source close to the talks said that the issue of income tax had featured prominently. He said income earners in the R40 000 to R100 000 a year range were taxed too heavily and incomes above R120 000 were proportionately better off. The unions were bargaining for a reduction in middle-income tax.

The source, however, believed the unions demands on the tax issue would be met over the next two to three years, but he said it was unlikely that they would be addressed before next Wednesday's announcement.

# ANC rejects report on the economy

(49) Sowetan 11/3/96

## Business South Africa slams the Govt's plans to tax ·etirement funds

RECENT BUSINESS PROPOSALS on economic reform threatened the country's progress, the African National Congress national executive committee said at the weekend.

The party was reacting to an SA Foundation document advocating dramatic reforms to push economic growth above five percent – the level required to cut unemployment.

The ANC said a suggestion to substantially increase VAT while reducing direct taxes and "slashing the deficit" would lead to major social dislocation.

"While there is clearly a need to avoid a debt trap, the proposal to slash the deficit to two percent or less seems to be based on blind ideology rather than seriously seeking to contribute meaningfully to the challenges of development we face as a country."

The foundation's argument for a flexible two-tiered labour market was ridiculous, the ANC said.

People employed under such conditions would not have basic human rights. This was an affront to democracy and a fundamental departure from any principles of justice.

The proposed privatisation programme also contradicted current restructuring plans, it added.

Two weeks ago big business called for massive privatisation of state assets, a reduction in company tax, slashing of Government's spending and a move towards more indirect taxation like VAT rather than income tax.

A week later Business South Africa, once again criticised Government plans to tax retirement funds in order to raise an estimated R5 billion. – *Sapa.*

# Democracy isn't cheap says ANC

ARG 11/3/96 (49)

ALIDE DASNOIS
Business Editor

AS speculation about Wednesday's budget mounts, head of parliament's finance committee Gill Marcus has countered calls for cuts in government spending, warning that "democracy doesn't come cheap".

"We can't solve the problems of 50 years in three years," she said.

Calls from business to reduce the budget deficit from the present 5,8 percent to 2 percent were unrealistic, Ms Marcus told a workshop of the Women's Budget Initiative in Cape Town yesterday.

"I have no doubt the deficit will go up until 1999, whatever we do, almost."

But Ms Marcus said wastage in government spending should be eliminated.

It was estimated that R15 billion a year was being wasted because of a lack of internal auditing of government spending.

The government should have its own actuaries, serving all departments, and should not have to rely on outside experts who often represented vested interests.

"We shouldn't have to go to the life offices to check the Katz figures," she said, referring to controversial proposals by the Katz Commission on tax to tax the income of retirement funds.

The proposals were slammed by life assurance companies, which claim the poor will suffer.

"Since when have the life offices had as their biggest priority what is spent on the poor?" Ms Marcus said.

plans

ST 10/3/96

(49)

# ANC slams business's growth

By CAROL PATON

**THE ANC yesterday slammed the business community's proposals for creating growth, saying they would "push the country backwards" and would be a "recipe for disaster" if they were implemented.**

Labour Minister Tito Mboweni said the document "Growth for All", prepared by the SA Foundation on behalf of 50 top South African companies and released last week, was "dangerous". It was an indication that business wanted to renege on key agreements reached with labour and the government, in particular the Labour Relations Act.

"It represents an attempt to roll back the consensus reached between the government, labour and business," he said.

The document proposed the creation of a "second tier" to the labour market which would make it possible for new businesses to employ workers without abiding by minimum agreements on wages and working conditions.

The "second tier" would exist alongside current businesses and workers employed under its conditions could be dismissed immediately for taking industrial action.

The ANC described this proposal as "the most ridiculous of all".

"The suggestion to create a 'two-tier' labour market in which employees will not have basic human rights is an affront to democracy ... it would mark the return of institutionalising black workers once more in a cheap labour system," it said.

The ANC also criticised the proposals on fiscal policy, which included slashing the deficit to two percent and increasing VAT to about 20 percent, saying the brunt of this would be borne by the poor.

While agreeing that there was a need to avoid a "debt trap", slashing the deficit would mean less money would be available for poverty relief.

These policies would also cause major political difficulties with the process of reconstruction, Mr Mboweni said.

Responding to the claim that government resources — especially those for poverty relief — would be boosted by a brisk privatisation programme, Mr Mboweni asked: "What do you do after you have sold the family silver?"

The ANC also criticised business for suggesting a privatisation programme that flies in the face of the national framework agreement on the restructuring of state assets.

"The Growth for All document is a request from big business to do something for them, but nothing for the poor. In fact, it says increase the burden on the poor. What kind of political system would accommodate the proposals they make?" asked Mr Mboweni.

The document attacks key pieces of legislation and government policy for which Mr Mboweni has been responsible, such as the green paper on employment standards.

However, he declined to respond to it on behalf of the government, saying "the government would still have to find a way of responding".

He said the ANC agreed that there was a structural problem with the labour market but he said the solution lay in developing policies that absorbed large amounts of labour rather than in suppressing the rights of workers and pushing wages down.

# Unions' stance on Budget comes under fire

BY JAMES LAMONT

Johannesburg — Vella Pillay, a leading banker in the labour movement, criticised South African trade unions yesterday for focusing their energies too sharply on isolated budgetary issues rather than striving for a total reformation of macro-economic policy.

"The unions have been drawn into something not pertinent to the condition of their workers," Pillay said referring to talks between the government and labour which focused on a possible tax on the assets held by life assurers. Pillay is the director of the National Institute of Economic Policy.

He said the debate about a hike in VAT and taxing pension fund assets as a measure of raising money for government "was a debate for simpletons". He said the reports on what the Budget was likely to contain "did not touch on the fundamentals of what the economy requires in present situation".

"The issues of what the Budget deficit should be and talk of investor confidence were soundbites to confuse people about what should be the real debate of the state's role in evolving a mixed economy"

He said that the government's economic alternatives had become "stark and increasingly narrow". He said in a society which had become "angry, violent, cynical and disinterested in what goes on in parliament", the union movement needed to press for measures to alleviate poverty and unemployment.

Pillay said he felt negative about the government's economic policy. He said wealth distribution was being achieved through crime and not through economic intervention.

To correct these problems the government needed to run up a Budget deficit appropriate to a country suffering from 50 percent unemployment and 2 to 3 percent population growth, he said.

Pillay argued that the government had sufficient international goodwill to maintain a Budget deficit of 7 to 8 percent of GDP and to use it to develop South Africa's infrastructure.

If business was encouraged to expand its investments, this would lead to a cycle of growth resulting in unemployment coming down.

☐ Pallo Jordan, the posts and telecommunications minister, has asked the National Institute of Economic Policy to draft a reply to the SA Foundation's economic strategy document released last month.

**NEGATIVE FEELINGS** *Banker Vella Pillay speaks out on labour's approach to the Budget*

(49) CT (BR) 12/3/96

Roger Harrison ... houses and jobs are the key.

Ernest Mthembu ... rural areas need upgrading.

Debbie Dodds ... spend most money on the children.

Tommy Berdanis ... focus on crime prevention.

Dassen Naidoo ... cut military budget to boost the RDP.

Leon du Toit ... raise public sector pay to reduce corruption.

# *Budget must tackle crime, jobs and poverty, snap survey finds*

Star 13/3/96 (49)

By Bobby Brown

"Give them peanuts and you get monkeys" was one of the more colourful statements that emerged from a street survey concerning today's Budget announcements.

Tommy Berdanis, owner of The Newsroom Pub and Grill in Bank City, was referring to his opinion that the Government should be concentrating more of the annual Budget on crime prevention and staff rendering essential services.

"In my line of business it is essential that potential patrons feel safe and will not be mugged. A crime-free country will ensure more successful small businesses."

Berdanis' opinion appeared to be a common one among the 15 people interviewed, with a few variations that ventured into education and unemployment, while others bordered on the absurd.

"They should make sure that every person is given a beer a day. It won't solve anything, but it will make the whole country forget about its problems for a while," said one tipsy businessman.

Dassen Naidoo said the Government should seriously start thinking of delivering the RDP to the people. "There are still squatter camps and unemployment. With the RDP we should be starting to see changes." He added that the country's military budget should be cut drastically to boost the education and RDP budgets.

Ernest Mthembu said the Government should focus its attention on rural areas, which desperately needed to be upgraded. "These people need to be helped so that they can have access to things people in cities take for granted."

Caterer Debbie Dodds said most of the country's money should be going to its children. "The children are the future of any country. The Government should spend more on crime prevention for children and education so that we can expect a bright future."

Her view was shared by Suraya Sarang and Roger Harrison, who felt housing and unemployment should share the spotlight with education for budgetary attention. "Solve the problem we have with unemployment and homeless people, especially street kids, and we will reduce crime a great deal," Harrison said.

Leon du Toit, a Housing Department property inspector, said that if government workers were paid more, "there will be less fraud and corruption, and officials won't be tempted to take bribes".

# Substantial deficit cut will be revealed as virtual reality

GRETA STEYN (49) BD 14/3/96

SOME analysts will describe Finance Minister Chris Liebenberg as a courageous reformer struggling in tough circumstances. Others will say he has been too afraid to take difficult steps urgently needed because of kow-towing to labour. Which is the correct verdict?

Liebenberg, who is too modest a man to want to take any credit for himself, would like to be seen as part of a team of gradualist reformers, and yesterday told journalists the reasons why.

He described as "very courageous" the tackling of public service restructuring, and the start of fundamental tax reform.

But neither of these two strategies has been completed yet and, in the case of the public service especially, there is no firm evidence yet of the extreme courage that will be required if government is to avoid a fiscal train smash.

The Bill for improving public servants' conditions of service for the next fiscal year is an astonishing R7,45bn. This compares with about R3,5bn in the past fiscal year.

Overall, public servants' remuneration will rise by more than 14% — against a projected inflation rate for the fiscal year of 7,5%. The big hike in real terms is aimed at restructuring the remuneration packages of an increasingly restless public service.

Such a massive increase in public servants' salaries obviously limits the room for other spending, and it is clear that deep cuts in real expenditure were made to allow for the salary restructuring. If government was not counting on massive rollovers of unspent funds from the previous fiscal year, possibly as much as R8bn, the salary exercise would not have been possible without sacrificing fiscal discipline. The fact that there is virtually no extra money for housing in the next fiscal year — but a massive amount for salary increases — tells an unpalatable story.

Government has major problems in delivering on RDP pledges such as housing, but it has no trouble delivering its own salaries. Obviously, once RDP delivery picks up, the increase in the salary bill will again have to be reined in.

Mindful of that, Liebenberg is predicting annual savings of R5bn on remuneration once "restructuring" (read: retrenchment) has been completed in a couple of years' time. To achieve that, government's work force would have to diminish by 100 000 if one assumes an average package of R50 000 a year. It is essential that this challenge be tackled as soon as possible, to allow more room for spending on infrastructure. Only once that has been achieved can government honestly say it has been brave.

Liebenberg's other claim to have been courageous is more legitimate. A change in pension funds' taxation which could anger business and labour, and trigger higher capital market interest rates, is indeed a brave step.

But unfortunately consultations with the pensions industry before the Budget created the impression that the move reflected a desperate need to hit a soft target for revenue. The perception was heightened by the initial proposal to place a levy on assets, which raised a hue and cry among business.

Opponents of the move also point out that Liebenberg opted to tax savings rather than consumption when he chose to tax pensions income rather than raise VAT. The net result should be a boost for consumer spending.

Officials were at pains to point out yesterday that some of the personal income tax relief will flow back into savings, and hence the Budget was not as inimical to savings as it might appear.

Liebenberg responded to the criticism by saying the pensions tax was a structural change that was required because of the industry's favourable tax treatment. It was not an alternative to VAT; it had to happen anyway and also did not go down well with labour.

Liebenberg's views on why VAT could not rise just yet will not go down well with purists who would like to see a shift from direct to indirect taxes. But it is a convincing argument that, as long as government's delivery mechanisms remain faulty, it would be a bad idea to raise a tax that hits the poor and unemployed. As Liebenberg said, there is no point in setting up a poverty relief scheme that will just end up as cash in the bank to be rolled over to the next fiscal year.

It is a pragmatic view from a finance minister who has accepted in principle that VAT has to rise, rather than an effort to pander to labour.

Liebenberg is quite right in espousing the Katz commission's view that the R11bn in tax benefits enjoyed by the pensions industry is extreme.

The industry's argument that low income earners will be hard hit also does not hold water, as the effect on their returns will be marginal at a 17% tax rate.

What is not yet clear, however, is the extent to which the move to tax pension funds' interest income will affect capital market interest rates. If there is one thing that government cannot afford it is a higher interest bill.

Government is budgeting for a rise of almost 18% in the cost of servicing its debt, to R34,4bn. The bill assumes an average capital market yield of 14% and average short-term interest rates of 14,5%.

Whether government's rather bullish view on the capital market will materialise is doubtful at this stage.

Increases in the interest bill and public servants' salaries together account for more than R11bn of the total R16,3bn rise projected for government spending in the next fiscal year. That leaves very little for capital expenditure, which government every year says should increase. The fact that capex as a percentage of GDP will fall to 2,5% from 2,7% last year is yet more evidence of government's failure to deliver.

It takes courage to tackle the interest bill, and Liebenberg has addressed the problem through innovative ideas on government's cash management.

In addition, he has again used proceeds from selling strategic oil supplies to bring down the borrowing requirement. But the proceeds of almost R1,9bn is a drop in the ocean compared with the overall borrowing requirement of R45bn. Proceeds from privatisation would make a much bigger difference — once government has the courage to go ahead.

The benefit of using the oil supplies is that it also helps create the appearance of a lower deficit (which is less than the borrowing requirement because of loan redemptions that have to be refinanced).

With the markets focusing on the deficit figure, Liebenberg has achieved an apparent cut in the deficit as percentage of GDP of almost one percentage point.

But once the proceeds from the oil sales are excluded in both years, the decline is less impressive, from 6,1% to 5,5%.

That is the underlying position, if once-offs are disregarded.

But even that picture is misleading; the large spending rollovers complicate the analysis. The 6,1% deficit for 1995/96 will probably be lower due to lack of delivery, and if government catches up on delivery this fiscal year, the actual deficit will be higher than 5,5% even if spending and revenue are otherwise spot on.

The substantial cut in the deficit is nothing more than virtual reality, and the illusion will be revealed when delivery gathers momentum.

Liebenberg has acted courageously and pragmatically in difficult circumstances, but much remains to be done and the jury will be out until the really thorny issues are tackled.

# A mixed-bag Budget

Sowetan 14/3/96 (49)

This Budget is no different from past ones because while it will bring a smile to some, it will be bad news to others, Business Editor **Mzimkulu Malunga** reflects

IN LAST YEAR'S BUDGET, the group that got the worst raw deal was the middle class, but this year it looks as if middle-income earners are smiling – even if just a little.

As some analysts predicted, the marginal tax rates threshold was shifted from R80 000 to R100 000, giving a small breather to the heavily taxed middle class.

The decision to increase the threshold to R100 000 means that those earning between R80 000 and R100 000 a year are the main beneficiaries as the portion of their salaries that is over R80 000 will now be taxed at 44 percent instead of 45 percent.

Low-income earners get some relief too in this year's Budget. For instance, while in the past financial year they had to pay tax once they earned above R14 600 a year, this year the threshold has been shifted to R15 000.

For people over the age of 65, the threshold is R27 905, meaning that people above this age will only pay tax once their earnings are above this threshold.

But economists say while there is some relief to middle-income earners, Finance Minister Chris Liebenberg's overall strategy appears to be that of giving with one hand and taking away with the other.

While there are likely to be some smiles by low-income earners and the middle class, Liebenberg could have annoyed his friends in the corporate world slightly by opting to tax retirement funds and leaving Value Added Tax unchanged.

Before the Budget, business began ringing warning bells that taxation on retirement funds could send the "wrong signals to investors", arguing that the best way was to increase VAT instead.

The income of retirement funds will be taxed at 17 percent from March 1 this year. Initially, the Katz Tax Commission had suggested that pension funds income be taxed at 30 percent.

### Possible hike in VAT

"This is not an *ad hoc* revenue-generating measure incompatible with other elements of the tax dispensation regarding retirement," argued Liebenberg in a bid to allay the fears of business.

But whether Liebenberg agrees or not, it looks as if business has lost out to labour – their powerful arch-enemies – on the VAT issue.

Early this week, some analysts were still predicting a possible hike in VAT. "The Minister might be brave and just do it," said one.

Liebenberg is quick to emphasise that the decision to leave VAT unchanged was not due to a deal with labour. "This Budget was not based on deals, but principles," he said.

**Finance Minister Chris Liebenberg ... wants his budget to be seen as helping lay the foundations for macro-economic stability.**

He added that in a country where almost half the labour force is unemployed, VAT must be looked at in a "strategic manner" rather than rushed into.

But even though he offended his former colleagues on retirement tax, Liebenberg did not entirely overlook their interests. He reduced the Secondary Tax on Companies – tax on shareholders' dividends – by half to 12,5 percent.

On this score, business is surely smiling. In fact, cutting STC to 12,5 percent surpassed the expectations of most business organisations, which expected it to be reduced to 15 percent.

When STC was introduced three years ago, the theory behind the move was to encourage companies to reinvest the money in business instead of paying shareholders.

Also, the captains of industry should give Liebenberg a round of applause for reducing the much talked about fiscal deficit – the difference between revenue and expenditure – by R1,3 billion to R28,8 billion.

The deficit is now 5,1 percent of the Gross Domestic Product – thanks to the sale of the strategic oil reserves – which brought R1,9 billion into the national coffers.

The size of the fiscal deficit was in the news lately, with some economists suggesting that it was unacceptably high and that the Government should do something about it

### Housing budget slashed

To add the cherry on top, Liebenberg even reduced the Marketable Securities Tax, a factor that will definitely set the stock markets alive.

The only issue which business might take up with the Government is that of the public debt, which Liebenberg projects will jump to over R311 billion by this time next year.

The debt repayments have increased by 1,5 percent to over R34 billion, just about a billion rand less than this year's total education budget This year education is getting the biggest allocation in the Budget, R35,2 billion.

A surprising factor in this Budget was the R7,5 billion allocation to the Reconstruction and Development Programme

As a substantial portion of the RDP money has not been used yet, some expected the RDP to get less.

But the Government stuck to its plan of allocating an additional R2,5 billion a year to the RDP.

Liebenberg said there were signs that RDP delivery was beginning to take off so it would be a mistake not to allocate funds to it as it was better if there were funds ready to roll once delivery picks up.

But contrary to what has happened to the RDP, housing – which was initially earmarked to kick-start the economy and create some jobs – had its budget slashed from around R4 billion last year to R1,5 billion this year.

This was because there was still some money allocated to housing last year which was lying unused in the national coffers.

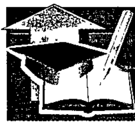
Liebenberg's appeal was that his Budget should be seen as part of the process which was laying foundations for future macro-economic stability in all sectors of life in South Africa.

But like all other budgets, the 1996/97 one will be good news for some and bad news for others – because the trick of any budget is to take from somewhere and give elsewhere

# Budget '96

# The good, the bad and the ugly

(49) Sowetan 14/3/96



## R35,2-b given to education

THE Government has allocated R35,2 billion for education this year

In a bid to create stability in high-learning institutions, the Government also increased the budget for the national Department of Education to R5,5 billion from R4,3 billion. On the other hand the provinces collectively got R29,7 billion with KwaZulu-Natal and Eastern Cape receiving substantial amounts of R5,1 billion and R5,4 billion respectively

Minister of Finance Chris Liebenberg said the money being allocated to the national Department of Education was aimed at providing significant increases in the subsidies to universities and technikons

R100 million would be used for the construction of new universities and R50 million for new technikons R300 million had been set aside for student financial assistance

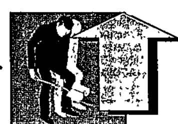
## Housing budget cut

THE Government yesterday decreased the housing budget to R1,5 billion compared with R4 billion last year

This reduced amount, said Minister of Finance Mr Chris Liebenberg, would be supplemented by significant resources in roll-overs from the RDP fund and money available in the National Housing Fund

The roll-overs, if combined, bring the total funds available for housing functions for 1996-97 to R4,6 billion – more than the funds allocated last year

Last year's initial budget allocation of R1,5 billion to the Housing Department was supplemented by substantial funds from the RDP. The resources for the national housing initiative have been strengthened by these allocations which are largely for capital subsidies to low-income home-buyers



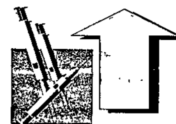
## Public Works gets more

THE Government has increased the Public Works allocation by 20,1 percent to R2,8 billion in the Budget announced yesterday

An amount of R100 million has been allocated to an RDP-funded, labour-intensive public works programme The programme forms part of the government's attempt to create jobs

In his speech yesterday, Finance Minister Chris Liebenberg said that the job creation remained the country's "biggest challenge"

"Access to formal wage earning opportunities takes households out of poverty and gives women and men a stake in the economy," said Liebenberg



## Health budget split up

THE nine provinces will share the bulk of the R17,1 billion health budget, causing a decrease in the national Budget

This means that the national Department of Health will only get R711 million for the upcoming financial year, a drop of 55 percent on last year's budget of R1,5 billion.

The rest of the health budget, R16,4 billion, has now been allocated to the provinces Gauteng gets the lion's share with R3,7 billion, followed by KwaZulu Natal with R3,1 billion, the Eastern Cape with R2,5 billion, Western Cape with R2,1 billion, Northern Province with R1,5 billion, Free State with R1,2 billion, North West with R1,1 billion, Mpumalanga with R783 million and Northern Cape with R289 million

Capital improvement gets R310 million while carry-through costs of RDP projects amount to R69 million R40 million from the RDP is for Aids awareness projects

## Police budget is increased

THE Government has confirmed its commitment to fight crime by increasing the South African Police Service (SAPS) budget by R1,03 billion in the budget But defence has suffered a five-percent cut

There is an increasing commitment to community policing, with the Government allocating 16 percent or R4,222 billion of its entire budget of R9,884 billion to this sector

Working conditions of police officers will also be tackled but the amount to be allocated will be announced later this year, said Minister Liebenberg.

The police budget is divided as follows R661,8 million to visible policing, R210,3 million to medical support for members and R105 million for provincial policing

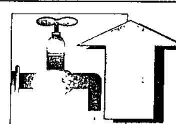
Liebenberg announced that the defence budget would be cut by 5,0 percent on last year's budget This is aimed at decreasing it to 2,0 percent of the Gross Domestic Product

## 'Sin-taxes' not severe

AS has almost become traditional over the past few years, the taxman has come and gone for smokers and alcohol drinkers In his wake he leaves smokers and drinkers glum-faced, having to pay up more for their vices

However the 'sin-taxes' are not as severe as some might have thought they would be, but at the same time not severe enough to discourage the nicotine and alcohol addicts

Cigarettes go up by 16 cents for a packet of twenties This amounts to 10 cents per kilogram increase while pipe tobacco goes up by 73 cents a kilogram If you are a cigar smoker, expect also to fork out an additional 67,5 cents on a kilogram



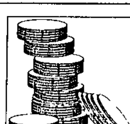
## More funds for water

THE WATER and Forestry budget has been increased by 11,7 percent to R2,4 billion this year Most of the money is ear-marked for use in rural South Africa where water is a scarce resource

The Government says the funds are to be used to improve the community water supply and sanitation programme that gained momentum towards the end of last year

The project is expected to benefit about two million people in the rural areas, particularly in areas like the Northern Province and the Eastern Cape A substantial portion of the money that has been allocated to Water Affairs this year – about R817 million – comes from the RDP fund

Last year, Water Affairs got less than R1 billion, but due to its increasing importance when it comes to RDP delivery, this department has even got better than housing – which was expected to be the mainstay for job creation



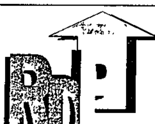
## Income tax relief for some

DESPITE pressure from business, the Government has stuck to its guns and continued with its programme to move towards direct instead of indirect tax

Yesterday, Finance Minister Chris Liebenberg gave a little relief to middle-income earners when he announced an effective one-percent tax reduction to people earning below R100 000

This will cost the country R2 billion He also left Value-Added Tax unchanged and opted for tax on the incomes of retirement funds instead The 17 percent tax imposed on the retirement industry with effect from this month is expected to generate an additional R2,7 billion

But in a move interpreted as giving something back to business, Liebenberg also drastically reduced Secondary Tax on Companies – tax on dividends – from 25 percent to 12,5 percent This move will cost the nation around R600 million



## RDP gets a R7,5-m boost

DESPITE millions of rands still lying unused in its coffers the Reconstruction and Development Programme has been allocated R7 5 billion this year, bringing the total RDP allocation to date to R15 billion

The money will be used to promote development in areas like thefollowing

- A programme addressing the backlog in school classrooms (R1 billion)
- Providing free health services (R680 million), primary school nutrition schemes (R500 million) and the cost of restructuring hospitals (R450 million)
- Additional funds for housing finance (R1,5 billion)
- Allocation for the restitution of land rights (R116 million) and land redistribution (R329 million)

Graphics and Layout John Tsatsi and Percy Andrews

# Minister 'chuffed' over cut in deficit

CLIVE SAWYER
Political Correspondent

FINANCE Minister Chris Liebenberg says he is "absolutely chuffed" that the government has cut the deficit before borrowing and has achieved other budget objectives set two years ago. (49)

Mr Liebenberg's evidence today was the curtain-raiser for seven days of hearings on the budget by parliament's joint standing committee on finance.

He told the committee it was wrong to call yesterday's budget a "holding exercise".

It had consolidated gains and set the way for growth.

Achieving the milestones set in 1994 in the first post-apartheid Budget should give investors and people in general confidence in the government's performance.

Mr Liebenberg said there were four areas of concern for his ministry.

These included that capital expenditure had dropped from 2,7 percent of the gross domestic product to 2,5 percent. ARG 14/3/96

Another concern was rollovers from previous budgets.

A third concern was that there had been a 10,4 percent increase in government spending, a figure which was higher than inflation.

The fourth concern was over debt levels, currently at 55 percent of GDP.

# Budget will see 'intolerable' price rises – consumer bodies

(49) Star 14/3/96

By Troye Lund
and Mandla Mthembu

Smokers and drinkers will pay more for their vices, but lower-income earners will be hardest hit by Finance Minister Chris Liebenberg's new budget, consumer bodies believe.

While economists of Gauteng's Association of Chambers of Commerce and Industries (GACCI) gave the budget credit for being "one step in the right economic direction", most consumer bodies predicted Liebenberg's announcements would be followed by increased unemployment and "intolerable increases in essential foods, goods and services".

The Consumer Council (CC) expressed disdain at the 3c hike in petrol and diesel levies.

"Hasn't the government realised that this will have a ripple effect on all goods and services. They advocate protection of the poor, but seem to give with one hand and take with the other," said CC spokesman, Eric Mathabathe.

Petrol in Gauteng now costs R1,85 per litre. From that the Government takes 62,9c. From a litre of diesel costing R1,87, the state will take 55,4c.

Housewives League (HL) president Pauline Kellett said fuel increases would take many products beyond the reach of ordinary citizens.

Mathabathe dismissed the reduction in personal tax and increases in pensions as they are "well below the 1995 inflation rate".

He alerted consumers to the increase from 15c to 25c on stamp duties and urged them to "mend their credit habits" and pay for goods in cash.

Mathabathe said no increase in VAT was an indication that the Government was committed to protecting the poor. But, in view of other negative impacts, he reiterated the fact that gains on the one hand were offset by losses on the other.

Representatives from the tobacco and liquor trade said the punitive taxes levelled at them, which aimed to enlarge government coffers by more than R500-million this year, were "deplorable". They warned they would have no choice but to cut down on jobs which they saw as "directly counter to the Government's declared aim of job creation".

The retail price of cigarettes will increase by 4% as a result of an increase in excise duty of 16c on a packet of 20 cigarettes.

A spokesman for the South African Liquor Stores Association, Chris Mhlongo, said consumers would bear the increase on their own as retailers were already operating on "minute margins".

A 340ml beer can will go up by 2c; a bottle of grain spirit by 69c and cane spirit by 67c.

Mhlongo said as the Government issued more licences and increased taxes, they would make "good business harder and harder". The result, according to him, would be a massive increase in illegal, informal trading.

GACCI spokesman, Frank Cauldwell complimented Liebenberg for his "tentative step in the right direction". His major concern was that the Government had ignored the broad base of income available from increasing VAT.

Cauldwell is adamant that taxing expenditure should be a priority as it gives consumers control over their financial predicament. He warned that continuing to increase income tax was a "sure way to take control out of the consumer's hands".

A more positive move for consumers, Cauldwell highlighted, was the increased entry level for the highest tax bracket (45%) to R100 000 a year.

"All in all, it's a cautious, somewhat helpful, but not at all surprising affair," stated Cauldwell.

## Deficit cut to 5,1% of GDP

# Tax shake-up steals show

LIEBENBERG

(49) BD 14/3/96

**Tim Cohen**

CAPE TOWN — Finance Minister Chris Liebenberg set the stage yesterday for wide-ranging tax reform and a shake-up of the public sector, while reducing the deficit before borrowing to a notional 5,1% of GDP.

In his Budget speech Liebenberg announced stiff new taxes on the pension fund industry which would be used to help reduce other business taxes and provide relief for personal taxes.

The new pension fund impost will net R2,7bn and will consist of a 17% tax on monthly gross interest and net rental income on private and state pension funds. This and an anticipated R1,5bn increase in revenue as a result of improved tax collection enabled Liebenberg to cut the deficit, reduce secondary tax on companies and marketable securities tax and provide R2bn in personal income tax relief.

Liebenberg announced a 10,4% increase in spending amounting to R173,7bn and a 13,8% increase in revenue to R144,9bn to yield a deficit of R28,8bn or 5,1% of GDP. Included in the revenue estimates was R1,9bn from the sale of stragetic oil reserves.

Widespread personal tax relief, including the level at which the maximum marginal rate would take effect from R80 000 to R100 000 and raising the minimum tax threshold 6,7%.

- Full text of minister's speech appears in a special supplement
- Provincial allocations Page 4
- Taxes Page 4
- Housing and health Page 5
- Public Service Page 5
- Analysis and comment Page 16


He said secondary tax on companies and marketable securities tax would be halved to 12,5% and 0,5%, respectively. The VAT net was widened to include financial services and gambling while a new tax would be imposed on retail credit cards.

The fuel levy would be raised by 3c/l with effect from April 3. In addition, the phasing out of protection to the synthetic fuel levy would not be passed on to the consumer but would accrue to government. Excise duties were increased with tobacco particularly hard hit. Estate duty and donations tax were also increased.

Anticipating accusations that the Budget was "treading water", Liebenberg commented: "This must be the year to get points on the scoreboard."

He denied at a pre-Budget news conference that government had buckled under union pressure to "trade off" VAT with the new tax on the pensions industry. "This Budget is based on principles not on deals," he said, arguing that a VAT rate increase could not take place without properly targeted poverty relief programmes.

Government had not yet been able to provide these programmes because its record in delivery was "not as good as we would have liked it to have been".

The new tax on the pension fund industry should not be seen as an ad hoc

Continued on Page 2

## Pensions

(49)

Continued from Page 1

BD 14/3/96

measure because the industry's extraordinary profitability was "tax driven" and government was merely closing an excessive tax gap, he said. The 17% rate would have a marginal effect on the pension benefits of low-income earners, and should be seen in the context of broader tax reform measures.

He conceded that, had it not been for the new pensions tax and anticipated improved tax collections, government would have been "under a lot of pressure". The new receipts had allowed government to "stand back and look at VAT quite objectively".

He conceded there were "certain negatives" about the Budget, saying government was concerned about the reduction of capital expenditure from 2,7% to 2,5% of GDP. Part of the reason for this was a large allocation for improvements to public servants' conditions of service. In total R7,5bn had to be allocated to make important structural adjustments to the public service, compared with about R3,5bn last year.

Deputy Finance Minister Alec Erwin said the three-year agreement with public servants would be expensive at the start, but government would save as much as R5bn a year.

The Budget indicated deep cuts in almost all departmental expenditure, partly because departments had access to massive amounts of cash rolled over from the previous fiscal year.

Liebenberg said he was concerned about the rollovers which reduced government credibility and made predictions difficult. The rollovers also meant the loss of job creation opportunities.

The Budget did not provide clarity on government intentions regarding the lifting of exchange controls. In response to questions, Liebenberg said government was committed to lifting exchange controls gradually, and was pleased with the way SA had emerged from the recent "attack" on the currency. The rand's decline really consisted of no more than an adjustment to the currency's purchasing power parity.

Liebenberg said government had a balanced and well-prepared team which had gone through many vigorous planning and training sessions. Meaningful delivery in terms of the national strategic vision and related initiatives had to take place this year. "With the 1996/97 Budget we hope to get on the scoreboard in a big way."

# Budget squeezes mainstream ministries

BD 14/3/96 (49)

Wyndham Hartley

CAPE TOWN — Ten mainline departments have budget increases so small, in real terms their funding allocation has been reduced.

This emerged when Finance Minister Chris Liebenberg tabled his Budget in Parliament yesterday afternoon.

The departments with reduced budgets are:

- Constitutional development and provincial affairs which has been cut by R200m due to reduced funding required for the Volkstaat Council, the Council of Traditional Leaders and the commission on provincial government.
- Correctional services gets an increase representing a rise of 0,2% over the revised 1995/96 figure.
- Environmental affairs and tourism gets a raise of 4,7% over the current revised estimate.
- Home affairs is increased by 2,3% or R19m for ID documents issued during the election.
- An increase of 0,7% for foreign affairs to pay for the broadening of SA's diplomatic relations.
- Justice increased by 6,4% to pay for the new Labour Court, increases in judges' salaries and the appointment of lay assessors.
- Labour has been cut by 2,8% or R146m due to a reduction in contributions to the Unemployment Insurance Fund.
- Mineral and energy affairs, which is down by almost 10% as a result of a decrease in strategic loans to the Atomic Energy Corporation.
- The public service commission allocation is down by 4,1%.
- Trade and industry is down by 7,3% because of the abolition of the General Export Incentive Scheme.

These cuts listed are in addition to the large cuts in real money terms to the housing and defence budgets.

# Mixed reaction from small, black business

(49) BD 14/3/96

Patrick Wadula and John Dludlu

FINANCE Minister Chris Liebenberg's second Budget speech was greeted with mixed reaction by small, black and independent business.

Black Management Forum president Lot Ndlovu welcomed the reduction of the secondary tax on companies to 12,5% (from a previous 25%), saying that this would benefit small entrepreneurs who were organised into close corporations.

But while praising the budget as being "very eventful and geared for the poor", the Foundation for African Business and Consumer Services criticised the reduction of the trade and industry allocation. "We think in this case (trade and industry) there should have been an increase with a special focus on the small enterprises where there is greater need," Fabcos general secretary David Moshapalo said.

The Small Business Project, formerly the Sunnyside Group, lauded Liebenberg's emphasis on job creation and growth, but urged government to make small business the "engine for growth".

Liebenberg said a 6% growth rate and 500 000 new jobs annually and development programmes would be important in addressing the country's backlogs.

The project's executive director Chris Darroll said more clarity was needed on the state's small business policies. She called for studies to be done gauging the economic contribution of the small and informal business sectors. Previous research initiatives on the informal sector had always been based on anecdotal accounts.

**Theo Rawana** reports that Nafcoc spokesman Mashudu Ramano said black business was disappointed that the minister had not made any concrete input to back up his talk of encouraging job creation. Black business had expected an announcement of tax relief after waiting for two years, , but this had not been attended to.

He said overall, Nafcoc congratulated the minister on a job well done in balancing areas that needed attention. He had done this by not increasing the tax burden on the poor, and had tried to contribute to crime prevention by increasing funding to the police.

# More money for all regions

Sowetan 14/3/96

(49)

By **Waghied Misbach**
Political Reporter

THE Government announced an increase of R2.72 billion in transfer flows to the nine provinces for the upcoming year – an increase of 3.8 percent on last year - in a total sum of R75.2 billion.

Finance Minister Mr Chris Liebenberg said in his Budget speech yesterday that the Government was committed to giving greater autonomy to the provinces

He said the provinces had an important role to play in "economic growth and development, and ensuring financial stability in the country"

In the absence of a formula for allocating the funds to the various provinces, the Government allocated the funds this year after intensive consultation with provincial treasurers and other stakeholders.

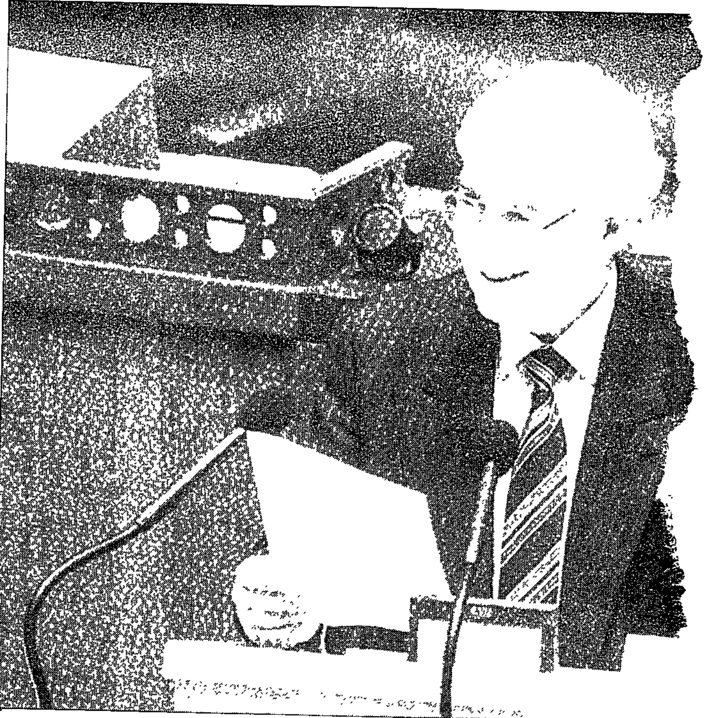
In future the Financial and Fiscal Commission (FFC) will allocate the budgetary amounts to the provinces. The FFC has already issued discussion documents on this issue, which has resulted in the Borrowing Powers of Provincial Government's Bill, which is expected to become legislation in the "near future".

### Likely share

This year, however, the Finance Department has after consultation, given an early indication of the likely share of the finance which each province will get.

The lion's share of the R75,2 billion allocation to the nine provinces will be taken by KwaZulu-Natal, which will get R14,5 billion. The Eastern Cape is second with a sum of R13,9 billion, followed by Gauteng with R11,1 billion, Northern Province with R9,3 billion and the Western Cape coming in fifth at R8,3 billion.

The others are Northern Cape (R1,7 billion); Free State (R5,1 billion); Mpumalanga (R4,6 billion); and North West (R6,4 billion).



**Finance Minister Chris Liebenberg delivering his Budget speech in Parliament yesterday. The political parties.**

## INSIDE LABOUR

# Union's banker sounds a Keynesian chord

(49) 15/3/96

TERRY BELL

When Sam Shilowa, the general secretary of Cosatu, last week warmly referred to Vella Pillay, the economist and banker, as "the only banker within the South African trade union movement", he gave the clearest hint so far of the alternative economic strategy the trade unions would promote. For Pillay, the economic adviser to the Bank of China, is a man with clear ideas about the way forward for the South African economy.

Then this week Pallo Jordan, the communications minister, requested the National Institute of Economic Policy, of which Pillay is the director, to draft a response to the South Africa Foundation's Growth for All economic strategy document.

This was the document that brought Pillay back from the margins of economic debate to the centre.

But he has for some time been increasingly listened to in a trade union movement determined to influence economic policy to encourage "growth with social justice". Once openly tipped — in the euphoric days after the release from prison of President Nelson Mandela — as the first ANC governor of the Reserve Bank, London-based Pillay is a bitter opponent of the conventional monetarist orientation of Reserve Bank governor Chris Stals.

He and Johannesburg-based collaborator and financial consultant Charles Millward have lobbied and written for nearly two years about the "misguided" policies of the Reserve Bank and the government.

But they appeared to make little headway. Their decidedly heterogeneous audience in the ANC and trade unions tended to react to agendas being set by business and the Reserve Bank.

The shortcomings of this reactive posture were shown up clearly with the recent release of the foundation's document and the government's national economic growth strategy. The government's document was long on targets and extremely short on detail.

In contrast, the foundation spelled out policies, which, in the present jargon, were neo-liberal, promoting rapid privatisation, free trade and an unfettered labour market.

Even when he castigated the foundation document as "an affront to democracy", Tito Mboweni, the labour minister, could only promise that the government would respond to the proposals "at a later date". Jordan — to the broad approval of most of the trade union leadership — has pushed that ball squarely into the court of Pillay.

This is likely to raise a number of hackles because Cosatu unions are officially still committed to "socialism" and given Pillay's links with the unions and China, accusations of "creeping socialism" will probably be made. This would be a mistake. The course Pillay has promoted owes nothing to the ideas of Karl Marx but a considerable debt to those of John Maynard Keynes, the father of the modern interventionist capitalist model.

This is why it will find support among sections of the business community and fierce resistance among elements in the trade unions. What Pillay proposes is a heavily interventionist package in which the state plays a major role in creating the conditions — and dictating the direction — of economic growth. Public spending lies at its core, as does a policy of a managed exchange rate with a devalued rand and lower interest rates.

His argument is that South Africa cannot open up to a fiercely competitive world without first addressing the disadvantages the country faces.

The national currency, he and Millward have maintained, should be priced at a level which would make local manufactures competitive and generate substantial foreign exchange reserves.

Last week, Pillay told several leading trade unionists that this approach would reflect that of many of the Asian tigers, including Japan.

Exchange rates were deliberately undervalued by these countries to generate sufficient hard currency to finance current account deficits without having to resort to borrowing.

He said it appeared nonsensical that while South Africa "digs some $20 billion of minerals from the ground annually" it had only $3 billion in reserves.

The arguments struck an extremely responsive chord.

They are likely to continue to do so within an administration becoming desperately concerned at rising rates of unemployment. A future corporatist state — its dynamic capitalist, but co-managed by the state, business and labour — now seems a distinct possibility.

# Beating the Budget blues

M+G (BM) 15-21/3/96 (49)

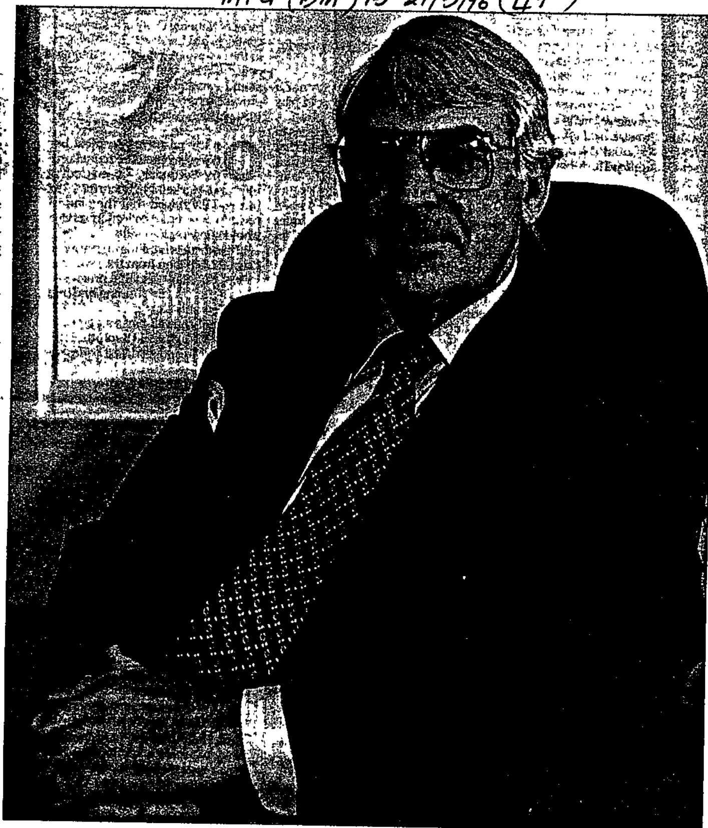
**Finance Minister Chris Liebenberg denies a trade-off between labour and the pensions industry, reports Madeleine Wackernagel**

THIS year's Budget had not been expected to raise the roof, nor did it. But Chris Liebenberg, the Minister of Finance, was quietly confident it would be well received by the markets, big business and labour alike. He insisted it was most definitely not a standstill Budget, nor a "holding operation"; indeed, in many respects, it showed courage and innovation.

Business had other ideas. The South African Chamber of Business (Sacob) had pushed for a 1% hike in value-added tax (VAT) — that didn't happen. But the expected levy on the retirement funds did, at 17%.

Sacob was unimpressed: "The decision to tax the income of pensions funds will be extremely onerous administratively and is, in Sacob's opinion, badly flawed as it amounts to little more than a raid on the nation's savings. This, combined with the decision not to increase the VAT rate at this time, sends out the wrong message in respect of the relative discouragement of consumption and the encouragement of savings and raises questions about the ability of the government to take tough, and possibly politically unpopular decisions."

Liebenberg emphasised that no deals were done; there was no "trade-off" between labour and the pensions industry. Raising VAT made no sense when substantial unused funds were being rolled over, with the concomitant wasted opportunities for job creation. But the pensions bullet had to be bitten: South Africa's contractual savings industry was the second best in the world, he said, because of low taxes. Its wealth had to be addressed and the Katz Commission proposals made perfect sense.



Chris Liebenberg: The Budget showed 'courage and innovation' PHOTOGRAPH HENNER FRANKENFELD

Furthermore, the regressive nature of VAT argued against an arbitrary increase. To the criticisms from the pension fund industry that the levy will hit the lower-income groups hardest, Liebenberg's response was swift: over a longer-term period of 10 to 15 years, it is the highest income groups that pay more, while the lowest benefit.

Sacob wanted an investor-friendly Budget and in many respects that call was answered. The Secondary Tax on Companies was lowered — by more than the expected 10%, from 25% to 12,5% and the Marketable Securities Tax was cut in half to 0,5%.

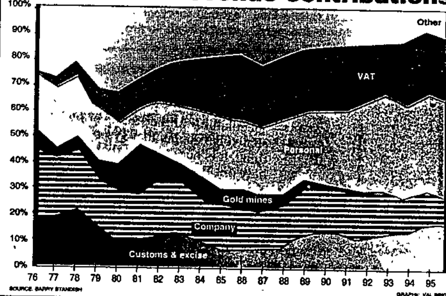
And Liebenberg re-affirmed the government's commitment to fiscal discipline: the Budget deficit target is 5,1% of gross domestic product (GDP), against an out-turn of 6% for 1995/96. The public debt total, therefore, is projected at 55,6% of GDP, compared to 56% last year, so the debt trap spectre is fading slightly.

**The Budget is reviewed on PAGES B1 to B5**

Consumers, as long as they don't smoke, drink or drive, have reason to cheer. In line with the government's pledge to iron out personal income tax inequities, tax bands have been further consolidated; the top rate of income tax now kicks in at R100 000 and the minimum tax threshold has been raised from R14 600 to R15 580.

Reaction in the markets was good; the long bond rate was strong at 14,9% after the speech, having been 15,4% in the morning, and the rand also took heart, rising against the dollar to R3,89.

But business and the markets alike had hoped for a more definite statement on relaxing exchange controls and privatisation. All Liebenberg said on the former was that the government was still on track for a gradual move at some stage but that the Budget was not the proper platform for such announcements; on the latter he said steady progress is being made.




Tax bands: Government pledged to iron out personal income tax inequities

His moves towards restructuring the public sector were well received, as were his pledges for more efficient tax collection. Indeed, he could hardly justify an increase in VAT when R10-billion slips through the tax net every year. To this end, the South African Revenue Service will be launched next month — although the position of chief executive remains empty.

FORUM

# 'SA Foundation's report ignores the needs of the majority'

(49) CT(BR)15/3/96

With the release of the South African Foundation's report last month some of us are left wondering how such an influential body can so soon after the political transition seek to undermine the national consensus on the economic development processes drafted and accepted by all political parties.

We refer, of course, to the RDP. In this age of avarice, so it seems, memory and commitment turn out to be disposable products. They are employed only as long as there is a need. So let us begin by refreshing some memories.

The RDP is a conceptual framework that looks at growth and development through reconstruction and redistribution.

This is a necessary starting point in a country where millions of people live in abject poverty alongside a small, but wealthy and economically powerful minority, where 87 percent of the land is held by 13 percent of the population and where the worst inequalities in income, education, health status and skills are present.

The RDP delineates a clear role for the multiplicity of interest groups that have become a part of our emerging democracy, while reserving a special role for the state.

It demonstrates that for the first time in our history the state can become a major instrument through which the needs and interests of all the people can be addressed.

The programme's base document, like its predecessor the Freedom Charter, represents the aspirations of South Africa's deprived majority.

Economists have long debated what determines economic growth, how the distribution of economic output among social classes is determined and what the relationship is between distribution and economic growth.

In the context of these questions and in addition to them, the role of the state in the economy has also been debated.

> *'Millions of people live in abject poverty alongside a small, wealthy minority'*

One school of thought defines saving as the source of economic growth. It specifies the relationships that first determine growth and then the distribution of output between wages and profit.

This school argues that the state's participation in the economy distorts the operation of the market.

Another school of thought specifies relationships that directly relate growth to income and income distribution and argues for active government participation.

Each approach has distinct policy implications.

The framework underlying the South African Foundation's report fits well with the first group of ideas, its central tenets draw a picture of an economy that has a flexible labour market, minimal government participation in the economy, high saving rates and is fully integrated into the global market.

In such an economy, we are told, market forces working through the private sector will lead to high growth, create sufficient employment, provide an income distribution acceptable to the market and allocate resources for reconstruction wherever market-friendly signals and conditions are present.

Given this framework, the foundation's major policy recommendations will liberalise, deregulate, privatise and drastically reduce the role of the state in the economy.

Some of its specific recommendations will reduce personal and company tax rates so that the overall tax take as a share of the GDP falls by about 0,5 percent a year; reduce government spending as a share of GDP by about 2 percent a year, quickly remove exchange controls on residents; allow for the depreciation of the currency, cut import tariffs faster and gear the economy to exports; establish a flexible, two-tiered labour market; avoid minimum wage regulations and maintain minimum standards; speed up the privatisation process; discard nationalism of any sort as a policy option, and promote higher savings.

We believe that the framework and policy recommendations underlying this report are unsuitable for bringing about changed economic conditions in South Africa.

We argue that the implementation of this framework will not lead to sustainable growth, alleviation of poverty and high unemployment, but entrench the dominant position that many corporations have enjoyed for the better part of this century.

Here are some of the reasons why we think this report should be rejected.

It ignores the overwhelming historical evidence of the role of the state in growth and development in the modern world. The United States during the depression years, Japan in its early period of industrialisation and then after World War 2, Korea between the 1950s and 1970s, and most of Western Europe from the early 1920s are examples of state intervention aimed at meeting the basic needs of the population, developing internal markets and alleviating the effect of regular market failures.

The report ignores the experience of the 1980s, where the adoption of similar policies in the US, Canada and Britain actually led to increases in their budget deficits without any reduction in unemployment and resulted instead in a rapid deterioration of social services.

South Africa cannot afford to copy such a failed, trickle-down economic framework.

The report advocates a major reduction in the government deficit and drastic cuts in taxes. A simultaneous implementation of these two policies requires major cuts in the government's social and economic expenditure drastically limiting the government's ability to restructure the inherited economic effects of apartheid.

These policies weaken the government's ability to use fiscal policy to change the pattern of income distribution in the country.

**Comment by the National Institute for Economic Policy**

The report relegates the development and expansion of the internal market to the periphery, contingent on the success of export-led growth. The opposite has been the pattern of development in all the large- and medium-sized industrial countries.

It advocates the creation of a dual labour market with different rates of remuneration and conditions of work. Thus, we submit, is economic apartheid.

If adopted as a strategy, it will perpetuate the racial divide with severe consequences for social and political stability.

The National Institute for Economic Policy believes that our path to growth should not be through institutionalisation of poverty wage policies.

The apartheid system provided the institutional framework and justification for its exploitative anti-labour policies.

The foundation report, through its framework, promotes those same policies, but this time under the banner of achieving international competitiveness and increased employment. It over-emphasises the role of foreign trade in economic growth and creation of employment.

Data from a diverse group of countries indicates that in the past 35 years exports constituted a small share of their GDP and their non-export GDP created more jobs.

Though the report points to the growth in our exports during the past year, no mention is made that the growth of imports in the same period has been higher. Last year imports increased by more than 33 percent while exports grew by only 15.2 percent.

It is not just our exports that determine the success or failure of our trade policies.

In Mexico, despite an increase in the country's exports, the trade deficit during 1994 led to the depletion of the country's reserves from $25 billion to less than $5 billion in 10 months. At present South Africa has less than $4 billion in reserves.

The report is over-confident in its estimation of the effects of the removal of exchange and capital controls.

South Africa has historically attracted speculative portfolio investments rather than direct foreign investment. Reserve Bank data on the composition of capital flows shows that since 1980 the share of short-term capital movement has been more than 75 percent of total capital account activity.

The report advocates double standards in its treatment of private-sector deficit spending and government deficit spending.

The emergence of the banking system in the history of capitalism allowed companies to finance their expansion beyond their internal sources of revenue and saving.

> *The foundation report is unsuitable for bringing about changed economic conditions*

The foundation's report clearly advocates policies that enhance the private sector's ability to raise funds domestically or internationally.

The institute believes the government should also be allowed to engage in deficit financing in a manner similar to the private sector.

We do not share the foundation report's underlying assumption that the expansion of private-sector economic activity through the credit market is growth-enhancing while the government's productive economic activity must be strictly limited to its current revenue.

The debate regarding a suitable economic framework for the growth and development of South Africa needs to be compatible and adhere to the principles of the RDP, otherwise it would lose the broad support given to the programme.

Contrary to the foundation's framework, the appropriate growth framework for South Africa should not be based on an outdated, trickle-down theory that emphasises growth.

In a country where 5 percent of the population controls 80 percent of the wealth, no fundamental change will come from a framework that does not build the decentralisation of economic power and the decentration of wealth into its operational mechanism.

The foundation's proposed framework is constructed to consolidate the existing pattern of income and wealth distribution and the property relations underlying that distribution.

This explains the foundation's failure to give cognisance to the developmental aspects of economic policy.

Though adherence to the principles of the RDP will promote and ensure social and political stability, the foundation's framework is more likely to perpetuate economic apartheid and to exacerbate social and political instability.

□ See Inside Laour on the Opinion and Analysis page

| Increase/decrease R-million | |
|---|---|
| State debt cost | 5 231.8 |
| Parliament | 37 0 |
| Improvement of conditions of service[(a)] | 6 039 7 |
| Transfer payments to provinces | 2 727 3 |
| Central statistical service | 289 0 |
| Constitutional development | -201.3 |
| Education | 1 161 7 |
| Health | -729.0 |
| Housing | -2 503 9 |
| Land affairs | 168.0 |
| Promoting the RDP | -391.8 |
| Public works | 452 6 |
| SA National Defence | -536.7 |
| SA Police Service | 437 6 |
| SA Revenue Service | 258.6 |
| State expenditure | 181.9 |
| Trade & Industry | -268.4 |
| Water Affairs & Forestry | 247.2 |
| Expenditure not yet allocated to a vote | |
| Supplementary estimate | 960.0 |
| Adjustment estimate | 600 0 |
| All other national votes (net) | 2 132.0 |
| Subtotal: | |
| Budget votes and statutory amounts | 16 293.3 |
| Plus. Standing appropriations | 6 0 |
| Total estimated increase | 16 299.3 |

(a) Improvements to conditions of service in 1996/97 have not yet been allocated to the respective Budget votes, but carry-through costs of the 1995/96 improvements in conditions of service are included. The increase is calculated on the outstanding 1995/96 figure, which comprises an as yet unallocated amount of R23.3-million and an amount of R468-million mainly earmarked for salary improvements in the former TBVC States that did not materialise

Who gets what: The main increases and decreases in Budget expenditure

# Budget takes a soft approach

M+G (15-21/3/96) (49)

**The revamp of the public sector is a major thrust of government's commitment to delivery, reports Madeleine Wackernagel**

THE 10,4% increase in total expenditure is higher than expected, mainly owing to the R6-billion allotted to improvement of conditions of service The process of restructuring the public service is expensive in the first year', says Finance Minister Chris Liebenberg, but the benefits of a more efficient civil service will quickly outweigh the costs.

The process involves downsizing and rightsizing flattening the gradings, ironing out inequities and paying market-related salaries to encourage skilled workers to stay in the public service No figure was put on the total number of redundancies envisaged; despite the burgeoning unemployment problem, the measure was generally welcomed

Liebenberg stressed a commitment to delivery; revamping the public service is a huge part of that initiative, as is the new South African Revenue Service (SARS), to go on line next month

The issue of roll-overs was highlighted as part of the new efficiency drive Housing, while allotted a lower amount than last year, will come out with R4,6-billion, owing to the backlog of unspent monies in the Reconstruction and Development Programme Fund and National Housing Fund

Education scores with R5,5-billion against R4,3-billion last year Substantial increases in subsidies to universities and technikons are envisaged, as is a R300-million fund to assist financially disadvantaged students.

Defence spending, while down from 4,5% of Gross Domestic Product to less than 2% this year, is still high at R10.2-billion. Scaling down the defence force is never easy, the defence lobby is a powerful one, says one analyst.

On balance there were few surprises in the expenditure plans, or indeed, in the taxation changes. While the levy on pension funds was expected, other revenue-generating measures amounted merely to tinkering. Excise taxes could have been higher, says the health lobby, while the increase in estate duty and donations tax to 25% was seen as a first step to a capital transfer tax

'Clearly the government has broadly accepted [Michael] Katz's views on capital transfer tax and a threefold increase in this area of taxation can be expected in the fullness of time In addition to the rate hike, action on the treatment of interest-free loans in estate planning and restriction on generation-skipping devices can be expected in the capital transfer tax act when it arrives, probably in 1997," said Tenk Loubser of Price Waterhouse.

The lowering of the Secondary Tax on Companies and the Marketable Securities Tax was welcomed The South African Chamber of Business pointed out, however, that company taxes are still very high relative to our competitors, and called for their abolition

If there was one criticism of the Budget, from business to labour, it was the lack of boldness Sacob said that while it took some fiscal steps in the right direction, it did not meet the economic challenges that lie ahead "Some tough decisions that are needed to improve South Africa's economic performance have not been taken "

TWO-TIER LABOUR MARKET PROPOSAL

# BUSINESS'S BOLD RESPONSE TO UNEMPLOYMENT CRISIS

FM 15/3/96 (49)

**Government's judicious silence**

The novel proposal by big business to create a deregulated, essentially union-free, labour-intensive job market — to function alongside the existing high-wage, low-employment sector — has predictably been dismissed by the ANC and its alliance partner Cosatu

But the case for a flexible "two-tier" labour market — set out in the SA Foundation's *Growth for All* plan (*FM* March 8) — is compelling, backed as it is by a *tour de force* of empirical evidence

Government (as distinct from the ANC) has yet to respond to the proposal, which it should find hard to reject out of hand despite political pressures

It would be churlish to see the proposed two-tier job market as a capitalist trick to "return black workers to a cheap labour system" as the ANC has suggested After all, big business (as opposed to small and medium-size enterprises) could quite easily acquiesce in a corporatist labour deal, jog along at 3%-4% growth and use its undoubted resources to shore up its own corner

Instead, the plan comes across as a genuine attempt to put forward a strategy, in the national interest, to overcome fundamental shortcomings. SA's ballooning unemployment (which at 32,7% of the labour force, or 4,6m workers in 1994, is among the highest in the world), steep unit labour costs and massive poverty (44% of the population live in poverty)

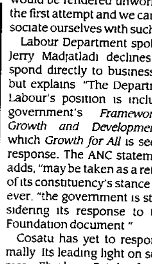
It deserves serious consideration as a way to create jobs

The proposal goes beyond anything government has so far come up with — specifically, in its *Framework for Growth and Development* unveiled by Deputy President Thabo Mbeki at the end of February, a week before the business document The proposal has clearly caught government and labour on the back foot and is set to unleash great debate

Mbeki correctly identified unemployment as the single most serious problem facing the country And in terms of his framework, key "targets" are the creation of 300 000-500 000 new jobs a year and GDP growth of at least 6% by the year 2000 Precisely how this is to be achieved — beyond calls for a "new patriotism" and promises of Keynesian public works programmes — could become clearer around June, when Mbeki unveils the details of his six-point strategy

Government economic strategy is expected to include its own ideas on labour market reform, based on the report of the Comprehensive Labour Market Commission appointed by Labour Minister Tito Mboweni a year ago Its report is also expected in June

Tito Mboweni


Thabo Mbeki

Commission chairman David Lewis says it would be "inappropriate" for him to comment on the two-tier labour market proposal, except to say that "it's a big issue that has come up for intense discussion and the commission will certainly reflect on it" He feels, however, that a lot of the details proposed by business are "nonstarters"

The ANC's National Working Committee — "in the spirit of debate and discussion required by the democratic character of our emerging democracy" — says business's plan "runs the risk of pushing our country backwards and (its) policy proposals could be a recipe for disaster"

It describes the two-tier labour market proposal as the "most ridiculous of all" — "a fundamental departure from any principles of justice which the business community has so often advocated

"This proposal would mark the return of institutionalising black workers once more in a cheap labour system under the guise of a 'second tier' labour market (It) would be rendered unworkable at the first attempt and we cannot associate ourselves with such "

Labour Department spokesman Jerry Madjatladi declines to respond directly to business's plan but explains "The Department of Labour's position is included in government's *Framework for Growth and Development*," to which *Growth for All* is seen as a response. The ANC statement, he adds, "may be taken as a reflection of its constituency's stance " However, "the government is still considering its response to the SA Foundation document "

Cosatu has yet to respond formally Its leading light on such topics, Ebrahim Patel of the SA Clothing & Textile Workers' Union (Sactwu), has been unavailable for a week

However, the message from Cosatu's negotiations school last week was that organised labour intends having none of it and will put forward its "own agenda "

Sketching the background to business's plan, Old Mutual economist Terence Moll, one of the authors, says the SA labour market is in an unbelievable mess, especially at the bottom end,





which is characterised by huge disequilibria No net new jobs have been created for unskilled workers over the past 20 years, and this segment is growing by 2,5%-3% a year

At the same time, intense competition from East Asia, particularly imports manufactured by unskilled labour, are undermining the position of SA's unskilled workers even further Hence the only solution was for labour costs to be driven far more by market forces

A second tier of labour appeared to be the only realistic way of getting the unskilled into formal jobs This would take nothing away from existing workers and at the same time raise the possibility of absorbing the jobless Of course, there would over time be an interaction between the two tiers, possibly undermining the first

The second tier is envisaged as both specialising in very labour-intensive activities and also acting as a form of discipline on the first tier

The interesting question, Moll adds, is whether this approach is realistic "We think that, at present, it's unrealistic, politically and socially, but, unfortunately, the options are even less realistic in the long term " At some stage, government will have to do something drastic

The SA labour market, says the SA Foundation document, is one of the most rigid in the world Unemployment is exceptionally high, unionised workers earn far more than their nonunion counterparts and the formal-informal gap seems to be the highest anywhere Combined with wages which are high in relation to productivity by world standards, this inefficiency and inflexibility has impeded growth (especially by undermining industrial exports) and led to the economy having virtually no capacity to create jobs

Consequently, "reforms are needed to allow a free-entry flexible wage sector of the formal labour market to emerge next to the existing high-wage, capital-intensive sector."

This would require the elimination of extensions of bargaining council agreements to nonparties, maintaining only those minimum labour standards (health and safety) that don't hurt the poor and jobless, avoiding minimum wage regulations which threaten jobs, and making the second (or free entry) tier more flexible through legislative changes

Workers in the second — or free entry — tier would have levels of protection which are high by developing country standards. They would engage in the machinery of collective bargaining, be able to join unions, bargain collectively and have the right to strike But they would face a legal regime more conducive to employment Where their employment relationship is embodied in a collective agreement, it would differ from that governing first-tier employment "And some legislative provisions that add to the costs of employment would be dispensed with "

Thus, it is proposed that in the second-tier

- ❑ Employers should be free to terminate employment for commercial reasons with no automatic right to severance pay and no statutory procedural obligation prior to retrenchment,
- ❑ The State or the law would not be able to impose nonwage costs on employment of these workers, who may negotiate to receive their wages in any form they see fit,
- ❑ Workers would be liable for immediate dismissal for taking part in unprocedural action and would also not have the right to engage in industrial action in disputes that they or their employer are not party to, and
- ❑ Employers should be automatically exempt from all minimum standards legislation other than those dealing with the most fundamental issues

Ebrahim Patel

The plan adds that in other countries where tiering has been used to ensure labour market flexibility and firm survival, such as Japan and the US, workers in different tiers have often been paid different wages "Wage restraint would have to be the norm in the second tier, or the impact on jobs will be negligible "

It may seem unfair to treat workers in the same situation differently, and to pay them different rates for the same work, perhaps in the same place, says the plan, noting that unions have traditionally objected to such arrangements on the grounds of discrimination.

"But this objection is false a two-tier labour market already exists, with one tier inside the formal sector of the economy and the other outside it."

The latter — farm workers, those in the informal sector and the unemployed — includes about 9,2m people, far more than the 5,2m in the formal sector "The primary objective of the two-tier structure is simply to accommodate such people in the formal sector "

The first tier, it is suggested, might consist of all current workers in their present employment, all workers who replace them and do not fall into a two-tier category, and youth workers who have graduated into tier one

Second-tier workers ought to be guided by the objectives of new investment and job-creation, particularly for groups in crisis — youth and people in depressed areas Within those guidelines there's a range of options, including workers appointed to new jobs at new operations, those appointed to new and additional jobs at existing plants, young workers, and workers in depressed areas.

According to labour consultant Duncan Innes, the business plan makes many important points and is a good contribution to the debate on job creation. In view of the fact that government's approach to new labour law tends to emphasise regulation more than flexibility, it is to be welcomed that the SA Foundation attempts to redress the balance "What's more possible now is for government, labour and business to negotiate more flexibility into the Labour Relations Act and the Green Paper on employment standards."

Though government claims that its policies will promote job creation, there's little real sign of it, says Innes, warning that moving towards a high-wage, highly regulated market has the danger of pricing SA out of global markets

Even if the two-tier labour market proposed by business is turned down essentially for political reasons, the imperative of injecting more flexibility into the system needs to be accepted by government

*Growth for All* marks an important, constructive contribution to the debate on a vital issue That debate should now begin in earnest — even if it means delaying the coming into law of the new Labour Relations Act ■

# Labour aims at 'balance' in plan to achieve growth

BD 15/3/96 (49)

Renee Grawitzky

LABOUR will seek a balance between promoting social equity and job creation as opposed to big business's "systematic attack on organised workers" to pursue growth.

This emerges in what could be a draft labour response to the SA Foundation document, "Growth for all".

It will pursue job creation through intensification of public works programmes, job sharing, labour-intensive projects, training, reviewing trade liberalisation policies, increased productivity and upgrading of technology.

Attainment of social equity through job creation is part of measures under consideration by labour and is outlined in the document. The final document is expected to be released this week.

Debate between labour and business on prerequisites for economic growth and job creation could cause major confrontation which could be intensified when negotiations start on the green paper on minimum employment standards in the National Economic, Development and Labour Council on April 11. The trade-off between worker rights and economic imperatives could become crucial, especially in view of the foundation document which proposes a dual labour market and other mechanisms to achieve labour market flexibility.

Labour's document was drafted as a result of input at last week's Nedlac negotiating school between Cosatu, the National Council of Trade Unions and the Federation of SA Labour.

Other measures being considered by labour include improving incomes and the quality of workers' lives, redirecting spending to social services and shifting the tax burden from the poor.

Foundation head Neil van Heerden said yesterday its document was in response to President Nelson Mandela and Deputy President Thabo Mbeki's call to the private sector to join the national debate on growth.

Public borrowing under fire

# Govt debt at dangerous high — Stals

(49) BD 15/3/96

Greta Steyn

CAPE TOWN — Reserve Bank governor Chris Stals described government debt as "dangerously high" yesterday and said massive public borrowing was a major part of the reason why interest rates were very high in real terms.

Stals told the parliamentary finance committee that government's huge borrowing requirement would put upward pressure on capital market interest rates this year. Government had to borrow about R45bn — R28,8bn to finance the deficit and about R16bn to refinance loans falling due.

"This has implications for interest rates .... There is substantial new borrowing and government has to entice existing investors to roll over stock falling due by offering attractive interest rates," he said. But he described as "a great achievement" the fact that the deficit would be cut in absolute terms from the 1995/96 level of about R30bn.

Stals emphasised the importance of allowing markets to determine interest rates and exchange rates.

The recent weakness in the rand had "certainly influenced" the way in which the Bank viewed the easing of exchange controls. He had not yet had extensive talks with Finance Minister Chris Liebenberg about further moves planned for later this year, but the Bank believed measures to undo controls should not disrupt the markets.

Stals appeared less optimistic than Liebenberg, who has shrugged off the currency's woes and said that they will not interfere with plans to ease exchange controls.

Stals said interest rates were a symptom of economic conditions, rather than a cause. The high real interest rates — up to 9,5% — reflected the fact that government was crowding out the private sector in the capital market. Government's demand absorbed all the domestic and foreign savings available to SA, leaving nothing for private sector investment in productive capacity. The private sector's fixed investment spending had to be financed through credit creation, which put upward pressure on money market interest rates. "A substantial part of economic expansion has been financed through money creation, which causes inflationary problems."

However, there had been encouraging signs that money and credit growth was levelling off at a high level.

Stals said the huge increase in government's interest bill, to a level exceeding the deficit, meant the net new borrowings were not even enough to service debt. The finance department was aware of the "dangerously high" debt levels. The situation would im-

Continued on Page 2

## Stals

(49) BD 15/3/96

Continued from Page 1

prove in an environment of economic growth, as that would bring down the ratio of debt to GDP from the present level of 55,6%.

Finance director-general Estian Calitz told the committee that a deficit of 5,1% of GDP in the fourth year of an economic upswing "is not a low deficit ... certainly not contractionary". But from where SA had come, it was relatively more contractionary.

Reuter reports Stals said a next step in easing foreign exchange controls on SA institutions could be to let them invest 3% of new funds abroad. A decision on how to relax remaining controls would have to be taken by the finance minister and the Cabinet.

**Robyn Chalmers** reports that institutions broadly welcomed the suggestions Stals put forward which would allow local institutions to invest 3% of new funds abroad.

Standard Bank chief economist Nico Czypionka said if this happened it would signal that government was continuing the progressive phasing out of exchange controls. "Although the amount of funds institutions will be able to invest is comparatively small, it will allow them to build up a portfolio offshore which will have no negative effect on the rand. It will go some way towards normalising the market."

SA Chamber of Business chief economist Ben van Rensburg also welcomed the proposal.

# Govt rollovers this year set at about R10bn

(49) BD 15/3/96

Tim Cohen

CAPE TOWN — Government would roll over about R10bn of unspent funds from the 1995/96 financial year — R2bn more than the highest figure cited so far, state expenditure director-general Hannes Smit told Parliament's finance committee yesterday.

In other evidence before Parliament's finance committee, Finance Minister Chris Liebenberg indicated he would be happier with a deficit "well below" 4% of GDP for the 1998/99 year previously indicated by government.

Liebenberg said he had a feeling that world economic growth was slowing down. He did not want to be in a cycle where growth diminished and SA still had a 5% or 6% deficit.

Liebenberg also noted the Smith commission report into pensions had indicated that if government adopted a "pay-as-you-go" system for state pension funds, the Budget deficit would be reflected as 3% or 4% instead of 5,1% of GDP. He felt relaxed about the approach adopted because the money had to be paid back, but was concerned about SA's financial image.

Smit said the extra R7,5bn allocated in the Budget to make adjustments to the public service would in fact cost R11,3bn if the increases were applied over the whole year. Consequently, the increases would take place at an as yet undisclosed date during the year. If public service cuts did not take place during the year, the burden on the fiscus in future would total R11,3bn.

On the high level of rollovers, Smit said the exact figure would be known only in mid-year. The current rollover was made up of about R8bn from general government departments, plus about R2bn of unspent housing funds.

See Page 16

# Government 'must not ignore the servicing of public debt'

CT(BR) 18/3/96 (49)

By Roy Cokayne

Pretoria — The government could not afford to be complacent about the servicing of public debt, which accounted for almost 20 percent of state spending, Estian Calitz, the director-general of finance, said on Friday.

But Calitz said revenue from the sale of state enterprises or the changed dividend policy that was being phased in by parastatals, had not been factored into the Budget.

Speaking at a post-Budget seminar in Pretoria organised by the Pretoria Afrikaanse Sakekamer and the Pretoria branch of the Economic Society, Calitz said the public wage bill of R65 billion included an improvement in conditions for the provinces.

He said the allocation constituted a 15 percent increase on the figure for 1995-96, which required the size of the public service to be reduced.

Calitz said that if a reduction of 100 000 was assumed, this was "somewhat higher than normal attrition".

He said that the Budget estimates were conservative.

"The macro figures of the budget have quite a large margin of resilience in them and there is a good chance of meeting them."

Calitz said the 17 percent tax imposed on the gross interest and net rental of retirement funds was not instituted because of the revenue it would generate, but because of the need to extend the tax base in South Africa.

He said that of the R2 billion in tax relief put into the system, 75 percent would benefit people with an annual income of less than R70 000 and it was wrong to assume that none of this would be channelled into savings.

Johann du Pisanie of the economics department at Unisa said if the VAT rate had been increased instead of a tax being imposed on retirement funds, it would have taxed expenditure and encouraged savings.

Koos van Wyk, a tax partner at Coopers & Lybrand, was pessimistic about the success of the new South African revenue service.

He said tax morality was low and businesses were discouraged because nothing was being done to bring those outside the tax net into the system. Van Wyk said the government was concentrating on those inside the tax net and taxing them more to get more revenue.

# A First World facade

(49) CT(BR) 20/3/96

*This is the second part of a feature on the competition crisis facing South African business*

MAJAKATHATA MOKOENA

Although South Africa is often referred to as an industrialised country, its exports look more like those of a Third World economy — 80 percent raw-materials. Despite the immense wealth of our primary materials, there is no jewellery industry to speak of in South Africa. In fact, we see very little development of value-added products from the raw materials we dig out of the ground.

Those who ruled the country until recently did nothing to build a manufacturing export base and while South Africa is the most dynamic economy in sub-Saharan Africa, it is easy to make too much of resource endowment, especially when the most successful economies of recent years have been resource-poor countries such as Japan, Taiwan, Singapore and South Korea.

In the fiercely competitive global economy, the key to success is not possession of abundant natural resources or cheap labour, but knowledge sophisticated enough to manage these properly. The abundant factors for which South Africa is famous are not readily transferable to related, supporting industries within the economy.

Further, the domination of some sectors by a few, vertically integrated conglomerates has not spawned new, more innovative entrants in these sectors and the country's record of managing for optimum return leaves a lot to be desired. Despite its substantial number of entrepreneurs, South Africa remains in a situation in which very basic factors are the essential source of advantage. It is heavily dependent on a broad range of primary products and its reservoir of unskilled labour.

The country has undoubted potential to move upmarket into the "investment-driven" phase of economic development and increase exports of manufacturers. South Africa should invest heavily in business development, including training and entrepreneurial support and development. This will lead to the development of new economic structures, including the cultivation of globally competitive industries.

This, however, is not happening easily, nor automatically. It will have to be carefully planned, with an efficient alignment of the country's resources. That means that while we create a truly competitive atmosphere at home by developing new industries and reducing impediments to competition, we should support the global competitive advantages already attained by the country's business entities. Given global promotional support through trade missions abroad, the companies' increased revenues from exports would boost the country's tax base, not to mention the overall wealth and prestige of the nation, thus leading to greater regional prosperity.

The government must promote an atmosphere where small businesses can thrive and grow to increase employment, especially those companies engaged in value-added, export-oriented manufacturing.

The only meaningful definition of competitiveness at the national level is national productivity, or the value of the output produced by a unit of labour or capital. A rising standard of living depends on the capacity of a nation's firms to achieve high levels of productivity and to increase it over time.

A nation's firms must improve productivity by raising product quality, adding desirable features, improving product technology or boosting production efficiency.

It is clear that cheap labour and a favourable exchange rate are not meaningful definitions of competitiveness, as many South African companies seem to believe. Exchange rates fluctuate and labour rates tend to grow with greater economic growth. To depend on these for competitiveness is foolhardy. The aim is to support higher wages and command premium prices in international markets for the nation's products.

**It is clear that cheap labour is not a meaningful definition of competitiveness**

High competition among national firms is another prerequisite for providing for conditions conducive to global competitiveness. This speaks against the continuation of huge conglomerates and monopolistic companies within the economy.

History has shown that it is competition governed by unhindered market forces that improves overall economic performance. More competition, not less, should be encouraged in the country. Previous South African governments have allowed for monopolies and conglomerates to flourish, thus putting the country in competitive jeopardy. This situation must change.

On the global scene, however, South African conglomerates have rightly concentrated in areas in which they do best — mining. In these endeavours, they should be supported by the government. South African companies fare poorly in industries not close to their core businesses.

The performance of our country's capital markets — the efficiency with which it allocates scarce financial resources — and the quality of financial services are crucial to our competitiveness.

Financial institutions, private and public, should facilitate value-adding activity within the economy, even as they pursue their profit objective. This means that they should be free to pursue this activity, to their maximum profit extracting capability. They should not be constrained by more powerful entities such as the government or a corporate parent, in the case of the conglomerates.

The most efficient financial markets guarantee that money will reach the most promising of business enterprises within the economy, thus leading to more efficient allocation of resources.

But where a well developed internationally integrated financial sector in a country should support its international competitiveness, South Africa's ability to manoeuvre is constrained by the nation's overall corporate structure. Most financial institutions see their role as pursuing the competitive objectives of the parent conglomerate. As such, they are not totally free to pursue deals which may be profitable to themselves, and detrimental to the parent. Such constraints should be removed at once. As for the internal workings of the financial system, it is punitive to small, fledgling companies in the economy, worse still, black ones.

The other constraint is the difficulty with which companies slightly larger than small, but not big enough to be listed on the JSE have access to capital. While these companies do not have access to the JSE, they are too large to justify the higher commercial bank rates they are forced to pay.

It costs at least R2 million, requires a three-year profitability history of at least R1 million and a minimum initial issue price of shares not less than 100c, to be listed on the JSE. The number of public shareholders should be at least 300. The requirements put small- and mid-range companies at a disadvantage for listing.

For South Africa to compete effectively in the global markets, government policies should be enabling, not obstructive. This requires extensive expertise on the workings of economics and basic business skills among policymakers.

It is important that economic understanding is highest among business enterprises and government officials alike to facilitate a smoother government-business communication. Here people are the most important ingredient of all. The availability of a skilled labour force increases a country's competitiveness. A Japanese friend once said to me that "it doesn't matter to us if we are accused of copying technology all the time. The most important matter is that we have a workforce sophisticated enough to copy."

Furthermore, the attitudes of the workforce affect competitiveness. A largely unhappy, black workforce in the employ of largely white, distant and condescending management is likely to reduce morale, and hence productivity.

Education, mutual respect and dedication to common goals can make a big difference in the competitiveness of an enterprise.

The same can be said for a nation which acts in a similar manner.

# Rollover system is under govt review

(49) BD 22/3/96

Greta Steyn

THE state expenditure department is overhauling the system which allows government departments to roll over massive amounts of money from one fiscal year to the next.

The review takes place as the RDP office prepares to carry over R2bn from its fund into the 1996/97 fiscal year — the second consecutive year that such a large amount has remained unspent.

A spokesman for the state expenditure department said yesterday it was reviewing the criteria which allowed departments to hang on to unspent funds. "We are looking at placing some limitations on the rollovers."

At present departments can hang on to budgetary allocations provided they do not go towards new recurrent expenditure, and are spent on the same capital projects as originally intended. "But we are looking at stricter criteria. Money should only be rolled over for essential things."

Government has come under fire for its failure to deliver, as rollovers have ballooned from less than R3,5bn in the 1993/94 fiscal year to about R8bn in the present fiscal year, ending at the end of this month. If the kitty in the housing fund is added, about R10bn will be carried over to the 1996/97 fiscal year.

Economists said the huge spending rollovers meant the actual deficit for the 1995/96 fiscal year was substantially lower than 6% of GDP. With revenue also expected to exceed the amounts estimated at the time of the adjustment Budget in February, the final outturn of the 1995/96 fiscal year would probably be a deficit of less than 5,5% of GDP. This compared to last week's budgeted deficit of 5,1% of GDP for the 1996/97 fiscal year.

The state expenditure spokesman said the RDP fund had failed to spend about R2bn of the total R3bn it had had at its disposal in the 1995/96 fiscal year. It is understood that the final tally might be even higher.

RDP officials had hoped to end the year with most of the RDP fund's allocation for 1995/96 spent, after a slow first year which saw spending of less than R800m.

Move 'a step towards privatisation'

# State set to minimise debt guarantees

Mungo Soggot
and Paul Richardson

GOVERNMENT is to cut its exposure to parastatal borrowing by winding down the guarantees it grants against state bodies' debt.

Finance department sectoral policy and public debt chief director Coen Kruger said this week the move — approved by Cabinet on Wednesday — sought to reduce the state's massive debt exposure and to make public sector institutions more accountable.

Analysts said the decision to wean public sector bodies from central government could also be seen as a move towards privatisation.

Kruger said government's guarantees on parastatal borrowing had risen R3bn to R56bn last year. The step would affect Eskom, Transnet and Telkom. "We need to look critically at our exposure, particularly with regard to public enterprises."

Government would now charge fees for guarantees, which were essentially a "hidden subsidy as parastatals use the guarantees in their (debt) pricing policies". The structure and scale of the fees would be discussed with the bodies concerned. Government had yet to set the date for implementation.

Kruger, briefing capital market players in Pretoria on funding strategy, said the move would affect general government bodies as well as a few private organisations. Government's total exposure through debt guarantees last year amounted to R65,3bn, down on the previous year's R72,2bn.

Reserve Bank capital market GM Andre Kock, also speaking at Wednesday's briefing, said government's funding burden for the current fiscal year would be lightened by extra cash carried over from 1995/96. "Don't expect the big bang in April. There is no pressure on government to fund because we have plenty of money in the kitty."

Later a finance department official said hefty rollovers would help government carry over at least R3bn into the current fiscal year. This would ease the load when funding began in April.

Government intends to raise R39,6bn in the local capital market — the lion's share of its R45bn borrowing requirement for 1996/97.

Finance director-general Estian Calitz said efforts to cut the Budget deficit could be helped by privatisation proceeds. "We have good reason to believe that after negotiations with the unions some funds might come through to help the deficit."

Finance Minister Chris Liebenberg said in his Budget speech he was not counting on any privatisation cash, but economists said he was probably being

Continued on Page 2

## Debt guarantees

Continued from Page 1

excessively conservative.

Calitz said government would source extra revenue from parastatal dividends — another source of revenue Liebenberg did not count on when setting the deficit target of 5,1% of GDP.

Finance deputy director-general Maria Ramos said government was planning to release a report in May on its cash management operation, which would seek to make better use of the money in state bodies and parastatals. Government was reviewing its capital market operations, particularly its role as market maker, and was considering appointing market makers from the private sector.

Public debt management and administration director Johan Redelinghuys said government was planning a new long-dated stock, the R184, which would carry a coupon of 12,5% and mature in December 2006.

# Swiss bank gives nod to SA economy

(49)

Mungo Soggot

BD 25/3/96

SA IS better placed than most emerging markets to ensure that its sound economic policies survived, and fears about life after Mandela were exaggerated, Switzerland's Union Bank said.

The bank expected the economy to grow 4% this year, which is at the upper end of economists' forecasts.

In an upbeat second quarter report on the SA economy, UBS — which is widely credited with having helped trigger the rand's collapse last month by pronouncing the currency 7% to 10% overvalued — said: "Politically, economically and structurally, SA is probably better placed than most economies in transition to ensure that the policy course is maintained."

Government had an "exemplary, albeit short, record". High spending poli-

Continued on Page 2

# Swiss Bank

(58)

Continued from Page 1

BD 25/3/96

cies were out, state expenditure was being totally restructured, the Budget deficit was falling and tariff barriers were tumbling. These sound policies were not just President Nelson Mandela's, but had broad backing.

Post-Mandela instability was unlikely as there was ample evidence of the strengthening of the democratic process in the past two years, and the country had been run successfully under a constitution based on the separation of powers.

These pivotal concerns, as well as the question of how exchange control liberalisation would hit the rand, had been behind the panic sell-off of the currency in February.

The bank said although its report on the rand being overvalued had been widely quoted, its central thrust had been ignored

It had said exchange controls should be lifted very gradually and that against this cautious background, there was room for the currency to appreciate further in real terms.

UBS believed the rand would now average R3,90 against the dollar. "It is hard to imagine why it should weaken further for any extended period."

The bank said that GDP growth would probably slow down to about 3% next year, and it expected inflation to continue to fall.

# Budget paper calls for improvements

(49) BD 26/3/96

Tim Cohen

CAPE TOWN — The parliamentary finance committee's Budget report has called for steps to improve macroeconomic planning, drawing attention to the high level of government's interest bill, the lack of a "dynamic focus" in supply-side assistance measures and a low level of tax compliance.

The report, adopted unanimously by the committee yesterday, welcomed achievements, including a significant degree of reprioritisation and the restructuring of the public service.

However, it pointed out several areas which it said required further attention, including indications that the level of tax compliance was at a 50-year low. It questioned the reliance in the 1996/97 Budget on increased revenue collection. It welcomed the Budget's increase to the maximum marginal tax rate, the steps to address fiscal drag and the use of R2bn to reduce the tax burden on low-income earners. This "significant shift" should be extended.

It noted evidence presented to the committee in hearings last week in support of the containment of real expenditure increases, as well as concerns that the budget deficit of 5,1% was still too high and would effect monetary policy. Because R16,3bn in loans was coming to maturity, government's borrowing requirement with the deficit would amount to more than R45bn.

Evidence indicated that net savings last year amounted to R16bn, and when coupled with the net capital inflow of R13bn, only R29bn of real savings was available to the SA economy.

As this roughly equalled the deficit, it meant there would be no savings in the economy to finance private sector requirements. This in turn had resulted in pressure on the capital markets arising from the need to finance domestic investment. In addition, there was pressure on banks to create more money to finance private sector consumption expenditure and the economic expansion.

"All the evidence presented reinforced the need for co-ordination on policy matters between the finance minister and the SA Reserve Bank," it said in the report.

One of the employment-promoting measures required to be addressed by government was a vigorous export drive.

"In this regard, while some supply-side measures have been proposed, submissions were made that they did not have the dynamic focus necessary."

Evidence before the committee provided vastly different views on the attainable target level for the Budget deficit, with business calling for a reduction by at least 1,5% a year, while others regarded this as totally unrealistic.

"In reality, the debate between the proponents of a 2% deficit or a 9% deficit as presented to the committee were equally sterile, as they take little account of either the socioeconomic or macroeconomic realities, or both, and lack the innovative thinking required to address the extensive inherited blems," it said in the report.

# Problems with TBCV integration

(49) ARGT 28/3/96

SERIOUS problems were being experienced in reintegrating the former TBVC territories, and there was reason for grave concern over financial management in the provinces, Auditor General Henri Kluever said in a report released yesterday.

The report, on the accounts of government for 1994/5, also said some provinces were experiencing extensive problems in building new administrations.

The 453-page document was presented to Parliament's Public Accounts Committee.

Mr Kluever said there were many individual problems in the provinces caused mainly by a "very serious" lack of management and administration expertise.

In some provinces bank reconciliations had not been done for several months, which had serious implications for financial management and control.

"The need for corrective steps and a coherent and dynamic approach cannot be over-emphasised." – Sapa.

# Future of SA financial management on a knife edge — auditor-general

Linda Ensor

CAPE TOWN — The future of SA's financial management hung in the balance as it tackled transformation and attempted to overcome inherited obstacles, auditor-general Henri Kluever warned yesterday.

While there had not been further deterioration in financial management and administration since end-March 1995, there had not been any improvement and much still had to be done. Highlighting the problems was the R840m in former TBVC states' expenditure on which only a qualified audit opinion could be given.

Kluever said corrective steps and closely monitored plans were essential if the country's finances were to be managed properly.

The auditor-general's report on national government accounts for the 1994/95 fiscal year — which Kluever presented to the parliamentary standing committee on public accounts yesterday — revealed that the financial management problems extended from local government finances to provincial administrations and in some cases to national government departments. They also included a deterioration in tax collection and the breakdown of controls at SA's ports and harbours.

However, total unauthorised expenditure in 1995/96 amounted to R27m, a minuscule amount relative to a Budget of about R120bn. The largest amount, R24,7m, related to unauthorised defence expenditure.

The report noted that because of the size and complexity of the transformation, "serious problems are being experienced with the amalgamation and rationalisation process. There may be broad consensus on what needs to be done, but consensus on how to do it has thus far unfortunately in most cases proven elusive."

The problems mainly related to the integration of the administrations of the former TBVC countries into both national departments and the new provincial administrations.

Many TBVC accounts, including bank accounts and suspense accounts, did not reconcile with control accounts by material amounts and in many cases accounting records were missing and could not be reconstructed.

Kluever also expressed concern over the many agency agreements. While these were unavoidable during a transition, they were generally detrimental to accountability and the efficient expenditure of state resources. He was pessimistic about the possibility of any substantial recoveries of TBVC mis-

Continued on Page 2

## Auditor-general

Continued from Page 1

management being made.

At provincial level a lack of skilled staff had exacerbated the difficulties of building new administrations.

As at end-December a preliminary investigation into the new provincial administrations revealed several very unsatisfactory features. These included a clear lack of appropriately trained and experienced staff, a lack of proper internal control and checking measures, irregular bank reconciliations and incomplete writing up of books.

"The current situation is reason for grave concern. Financial management in the new provincial administrations must be put on a sound footing as a matter of urgency," he stressed.

At local government level, provisional surveys indicated a loss of financial expertise and a deterioration in the quality and timeous submission of annual financial statements.

By end-February 1996, 452 local authorities — 50% — had failed to submit financial statements up to the end of June last year.

The deterioration in tax collection was shown in that R10bn was owed to inland revenue and customs and excise, a 12% increase over last year.

The outstanding tax rose to R8,7bn at end-March 1995, compared with R7,8bn the previous year. Income tax outstanding for nine months or longer, the collection of which was uncertain, increased "alarmingly" by 17% for individuals and 64,4% for companies in the 1994/95 fiscal year. Total tax outstanding for nine months or longer by end-March 1995 amounted to R2bn, an increase of R521m over the previous year and representing 55% (44%) of all outstanding tax.

Virtually no controls existed on customs and excise, and he called for tougher powers for the commissioner of customs and excise to act against fraud and gross negligence.

See Page 6

# Report of the auditor-general in brief

Linda Ensor (49) BD 28/2/96

THE five state pension funds were underfunded to the tune of R52bn according to the latest actuarial valuations, which are conducted every three years. Most had shown an improvement in funding levels since the previous valuation.

□ The total cost of the Nel commission, which investigated the collapse of the Masterbond group, was R5,9m, the report for 1994/95 revealed. This was somewhat lower than initially estimated.

□ Shortcomings were found in the internal control systems of Deputy President FW de Klerk's office — apparently due to staff shortages. One authorised loss was the R17 000 theft of computer equipment.

□ The multiparty negotiation process in 1994/95 cost R78m, with R66m being spent on conference facilities at the World Trade Centre.

□ The value of prison labour used by the correctional services department in 1994/95 totalled R30m, and the value of prison labour made available to other departments and institutions at no cost amounted to R163 396. The cost of amalgamating the former TBVC countries and KwaZulu amounted to R204m.

□ The former Bophuthatswana government is believed to have spent $6,5m in purchasing fixed property abroad. One transaction for $4m was conducted through the former Bophuthatswana Development Corporation and a foreign front company. Irregularities are believed to have occurred and legal action is being taken. A further $2,5m may also be involved.

□ No audit opinion could be made on the recoverability of the Agricultural Credit Account's debts because of the number of irrecoverable debts written off (R21m in 187 cases), as well as outstanding advances of R268m and interest of R165m which were due and had not been paid by end-March last year. Outstanding loans at end-March totalled R1,3bn.

# SA backlogs 'cannot be erased in 10 years'

(49) BD 28/3/96

CAPE TOWN — It was "madness" to believe SA's socioeconomic backlogs could be erased in five to 10 years, NP finance spokesman Theo Alant said yesterday.

This would take at least 25 good years, he said during debate on the first reading of the Budget. The country needed an economic plan with clear and attainable national goals.

The NP's primary objection to the Budget was because of the considerable increase in the country's total tax burden, Alant said.

This was in contrast with Finance Minister Chris Liebenberg's promise that higher taxation income resulting from improved tax collection would not lead to a higher tax burden, but would be used to reduce tax rates.

ANC finance spokesman Gill Marcus said the best way to broaden the tax base would be for tax registration to be made automatic.

An integrated system that enabled access to information in different departments, such as property registers, vehicle licensing and customs and excise, should be established urgently.

Reducing the Budget deficit from 6% to 5,1% was a welcome trend and, coupled with a budgeted primary surplus of 1% for the first time in many years, was critical to maintain.

The projection for total public debt in 1996/97 was about R311bn, a slight drop to 55,6% from last year's 56% of GDP. Other government spending could take place only once the interest to service the debt — R34,4bn in 1996/97 — had been paid.

Freedom Front finance spokesman Willem Botha said SA's bank rate, which was among the highest in the world, needed to be reduced because it compared unfavourably with the country's major trading partners.

Botha said individuals were hit hardest because of this high rate. He would prefer to see a lower bank rate and a loan levy imposed by inland revenue.

Government's biggest expense was the cost of its debt. It was unacceptable that R1 of every R5 was used to service state debt.

IFP finance spokesman Gavin Woods said the private sector should be involved in the budgeting process. — Sapa.

*'Reconciliations had not been done for months'*

# State accounts out of control, says Kluever

(BR) CT 28/3/96 (49)

By Audrey D'Angelo

Cape Town — There were serious problems with the financial management of the government's accounts, Henri Kluever, the auditor-general, said yesterday.

Presenting the government's accounts for the past financial year to the parliamentary joint standing committee on public accounts, Kluever put particular emphasis on the problems of integrating the former TBVC states, which had failed to produce satisfactory financial statements, with new local authorities, some of which also lacked financial expertise.

Kluever said the situation gave reason for grave concern.

"Financial management in the new provincial administrations must be put on a sound footing as a matter of urgency. It appears that certain provinces will have to receive assistance from national level to address adequately their accounting and financial management difficulties."

There was a lack of trained and experienced staff with a financial background, and of proper internal checking and control measures. Some bank reconciliations had not been done for months.

The auditors were unlikely to pass accounts for the former TBVC states because the consultants who had prepared them had pointed out that many bank and suspense accounts diverged substantially from control accounts.

Kluever said sums qualified by the consultants in this way totalled R840 million. It was unlikely that any of this could be recovered.

His report highlighted a litany of problems, including unauthorised overspending by the defence force, difficulties in compiling the annual financial statements for the National Housing Fund and goods flooding into South Africa without adequate inspection.

He was concerned about the lack of control of the funds for the National Housing Fund, which now ran into billions. Some provincial authorities had problems "compiling and timeously submitting acceptable financial statements" for the funds. They had been given an extension until the end of the month.

Unauthorised expenditure by the defence force was R24,7 million. Discussing a secret defence force account, Kluever said R21,7 million had been written off on the termination of a project abroad and the destruction of a stockpile.

No details could be given, but the Office for Serious Economic Offences was awaiting the decision of the minister of justice on whether to investigate the project.

☐ See Page 18

THURSDAY
MARCH 28, 1996 ★



## OVER R26 MILLION IN UNAUTHORISED SPENDING

# 'Serious problems' in audit

(49) CT 28/3/96

**THE TRANSITION IN** South Africa's government had thrown up serious financial management problems, particularly in the former homelands, auditor-general Mr Henri Kluever said yesterday. **BARRY STREEK** reports.

SERIOUS financial management and administrative problems had developed with South Africa's transition, with unauthorised expenditure of R26,9 million and qualified audits on aspects of 16 departmental votes, auditor-general Mr Henri Kluever said yesterday.

Serious problems were found in particularly the accounts of the former TBVC states, three other homelands and in the new provincial structures, he said in his report on central government departments in the 1994/5 financial year.

Kluever said the financial management and administrative problems of the transition in South Africa were "large indeed". "We must, however, not let them go unresolved," he added.

"In this regard there even may be broad consensus on what needs to be done but consensus on how to do it has thus far unfortunately in most cases proven elusive."

Kluever told Parliament's Joint Committee on Public Accounts that "serious problems" were being experienced with the amalgamation and rationalisation process, particularly in regard to the former homelands and the number of qualified audits of expenditure in the former TBVC states.

Other serious problems existed because of the many agency agreements and the rendering of services on a recoverable basis.

Extensive problems were being experienced in some provinces with the process of building new administrations.

Kluever also reported he was not able to express an unqualified audit opinion about specific aspects of the accounts in 16 of the 38 budget votes, including Agriculture, Constitutional Development, Correctional Services, Foreign Affairs, Health, Housing, Justice, Labour, Defence, Police and the RDP.

He found unauthorised expenditure totalling R26,9m, including R1,1m in the Department of Justice and R24,7m in the defence force.

Most of the Defence expenditure (R23,9m) was over-expenditure in regard to additional members of the defence force called up for duty during the 1994 elections.

A further R284 450 was associated with the post of secretary of the SANDF Rugby Association and R523 711 in aid for the Service Golf Club was disallowed.

The Department of Education and Culture in the House of Representatives incurred a further R530 500 in unauthorised expenditure for transportation of pupils living within a radius of five kilometres from a school, Kluever said.

● The new headquarters of the National Intelligence Service, authorised in October 1993, has cost R163,6m — R14,8m more than originally estimated.

Kluever said the extra costs included a R4,2 million penalty paid to a building contractor last year because of a rescheduling of the works programme.

"Construction costs by the end of March last year had amounted to R49 million.

"An element of fruitless expenditure has arisen from the need to redraw the original plans, and make certain alterations to works in progress, as a result of the amalgamation of the five former civilian intelligence structures into two new wholly distinct organisations that could not have been foreseen when drawing the original plans," he added.

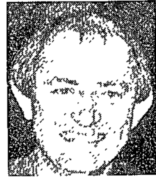
● The former white education department in the old House of Assembly transferred land, schools and hostel buildings worth R16,7m as free gifts during the 1994/5 financial year, Kluever reported yesterday.

He gave no further details in the list of "gifts by the state" in his report on central government departments during 1994/5.

● See Pages 15 and 18.

## Liebenberg's resignation sparks Cabinet reshuffle

# Manuel takes up finance post


ERWIN

BD 29/3/96

**Tim Cohen**

CAPE TOWN — Finance Minister Chris Liebenberg resigned yesterday, sparking the scrapping of the RDP department and a host of other changes which will consolidate the ANC's power in the government of national unity.

In the current government's biggest Cabinet reshuffle to date, Liebenberg will be replaced by Trade and Industry Minister Trevor Manuel. Deputy Finance Minister Alec Erwin will take Manuel's place, while Posts and Telecommunications Minister Pallo Jordan will stand down in favour of RDP Minister Jay Naidoo.

President Nelson Mandela also appointed three women as deputy ministers, with parliamentary finance committee chairman Gill Marcus becoming deputy finance minister.

Two new deputy ministerial posts have been created for mineral and energy affairs and trade and industry, which will be filled by ANC MPs Susan Shabangu and Phumzile Mlambo-Ngcuka, respectively. The changes take effect on April 4.

Speaking after Mandela's announcement, Liebenberg said he was "totally at ease" with government's fiscal and economic policies, denying that his resignation was based on any differences of opinion with his colleagues.

Leibenberg said that at the start of his roughly 18-month term, he had indicated he would not be taking on the position for long. His resignation ends an era of expert non-political and quasi-political Finance Ministers.

Liebenberg said: "I firmly believe that everything is in place for the strategy to go forward and that it really would have been superfluous for me as a non-politician to be around when you have the talent sitting on the sidelines that can do the job...."

He had given Mandela the undertaking that he would not seek another position in the private sector while in office. "So I am unemployed, although I'm too young to stay at home."

Mandela told Parliament the appointment of Manuel as finance minister created the problem that the ANC had one more minister than was allowed by the constitution.

"After much reflection", Mandela said he had decided to assign Jordan "other tasks outside Cabinet", although it is understood he is unlikely to remain outside the higher government ranks for long.

Mandela said that with the appointment of Naidoo to Jordan's post, the RDP office would be closed down, and Deputy President Thabo Mbeki had been instructed to handle the relocation of projects and programmes which fell under the RDP office's supervision.

The RDP fund would be relocated within the finance ministry.

Opposition parties reacted to the changes with varing degrees of scepticism. The NP said that after former finance minister Derek Keys resigned, it had been accepted by the ANC that the finance minister should be an internationally respected expert who was political neutral.

The NP said it was worried about the signals this decision might send and called on government to renew its commitment to the continuation of the approach that had been followed thus far.

DP finance spokesman Ken Andrew said that in the absence of a full explanation, the indications were that Liebenberg was "fed up with having to make unsatisfactory budgetary compromises which he knows are harmful to SA's long-term social and economic interests."

Freedom Front finance spokesman Willie Botha said it was a pity that finance ministers who had good success records in the private sector did not offer their services to politics for longer periods. This unfortunately created the impression that something was wrong somewhere, he said.

Sacob president Rudi Heine said Liebenberg's resignation came "at an unfortunate time" in SA's history when the country "is still struggling to develop and build a record of fiscal discipline, financial stability and sound management of the economy".

"The fact that in its short history, the new SA has now had two finance ministers is almost certain to raise market concerns about the commitment of the government of national unity to fiscal discipline."

Heine said, however, that Sacob had enjoyed an "excellent working relationship" with both Manuel and Ervwin in the past, and he hoped this would continue.

See Pages 5 and 18

BUSINESS

# Infrastructural investment needs raised at conference

BD 29/3/96 (49)

Samantha Sharpe

CAPE TOWN — Today's RDP infrastructure investment conference would help mobilise massive future spending on infrastructure, a key factor to SA's economic growth, the minister in the office of the president Jay Naidoo said yesterday.

The conference would bring together key government officials and prominent figures in the private sector, in a bid to enhance private infrastructure investment.

Naidoo said government was prepared to present at the conference its planning around development finance, specifically the National Infrastructure Investment Framework.

The framework showed two investment scenarios with a "best case" based on commercial assessments of core infrastructure needs, as well as the desire to wipe out backlogs within five years.

This would require R100bn for economic infrastructure alone, dropping to R90bn with a slower pace of delivery.

Economic infrastructure was one of four integrated programmes in the framework which included provision for municipal, rural and social infrastructure investment, he said.

It showed social infrastructure requirements at about R31bn, with investment in municipal infrastructure needing between R41bn and R70bn, depending on the delivery rate and service.

Investment in rural infrastructure was likely to be smaller, ranging between R11bn and R18bn, because of limited absorption capacity, Naidoo said.

Both scenarios estimated public investment growing at 16,7% and 8,4% a year respectively and were based on a five year period, with a slower pace of delivery assumed for the second one.

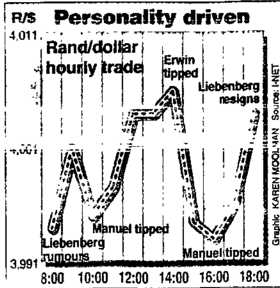
Naidoo said that the East Asian economic miracle showed that investment in public infrastructure had helped create an environment in which private investment could flourish.

Longer-run economic performance was enhanced by the productivity gains from improved infrastructure, with positive spin-offs for job creation through labour intensive projects.

Deputy Finance Minister Alec Erwin said there was a major investment need for infrastructure investment, with budgetary reforms, debt management and a regulatory environment allowing maximised financial co-operation between government, the parastatals and private sector capital.

Government's proposed large infrastructural investment programme was the basis for meeting needs and enhancing growth and development, he said.

While the conference did not herald a "big bang" approach to infrastructural spending, SA could see infrastructure projects unfolding that would help bring its growth rate to 6% in the next few years, Erwin said.




# Roller-coaster ride for SA markets

Paul Richardson

SA's currency and bond markets had a roller-coaster ride on yesterday's Cabinet reshuffle rumours.

By the close the currency had reversed 1,5c to R3,9983 to the dollar after breaching the R4 level at regular

Continued on Page 2

# Govt, labour and business to talk about infrastructure

BD 29/3/96. (49)

Samantha Sharpe

GOVERNMENT, labour and the private sector will meet today to thrash out a framework for investment in economic and social infrastructure, a move which could see billions mobilised for infrastructure spending.

Speaking at the opening of the RDP Infrastructure Investment Conference last night, Deputy President Thabo Mbeki said it was clear the Budget alone was insufficient to meet SA's infrastructure investment needs.

What was called for was partnerships between government, labour, communities and the private sector in local projects to ensure economic growth and RDP delivery.

Mbeki said better co-operation between the private and public sectors would be helped by government's first detailed and comprehensive programme for infrastructure investment, the National Infrastructure Investment Framework.

"Investors are now able to have a clear picture of the scope and scale of the public investment programme, and the envisaged requirements for both private sector loans and equity."

The framework was based on two investment scenarios. The more affordable showed that R90bn was needed for economic infrastructure investment alone, with social infrastructure spending estimated at R31bn.

Mbeki said government was also finalising a medium-term fiscal framework, which would show financial figures for allocations to public sector programmes for a five-year period.

Sanlam chairman Marinus Daling said it was clear that infrastrucuture development should be part of SA's macro-economic policy. He said there was little doubt public- and private-sector partnerships were needed. However, these partnerships should include institutions from abroad.

See Page 3

GOVT, BUSINESS TO WORK TOGETHER

# Multi-billion growth plan

**PLANS TO GET** basic services to the people and provide the infrastructure to promote growth were discussed yesterday. **BARRY STREEK** and **WILLEM STEENKAMP** report.

CT 29/3/96 (49)

A MULTI-BILLION rand project to get the government and business to work together and provide basic infrastructure while promoting economic growth was launched at the RDP Infrastructure Investment Conference in Cape Town last night.

Government and business leaders will meet behind closed doors today to discuss ways of obtaining private sector and institutional involvement in raising the R60 to R70 billion needed to bring services up to an acceptable level over a decade.

Retiring RDP minister Mr Jay Naidoo said the drive was to show "that infrastructure spending contributes to economic growth but with a time lag".

Much work had been done on drawing up structures in partnership with business, Naidoo said.

Deputy Finance Minister and new Minister of Trade and Industry Alec Erwin said: "We should not see infrastructure as a detraction from growth, but as a contributor to growth."

Deputy President Thabo Mbeki said in the keynote address that everyone was aware that "the inequality, unemployment and poverty that continue to afflict our country can destroy the political gains we have made" and only by "pooling our collective resources" could the necessary socio-economic changes be made.

But Mbeki warned that democracy had placed certain responsibilities on communities: "South Africa simply cannot afford to carry those who are not paying for their services despite adequate incomes. Non-payment of service charges is unacceptable.

"The rebuilding and construction of community facilities and the maintenance of services and their improvement will remain largely impaired unless communities contribute by paying for the services they receive and defending such assets as electricity cables within their areas."

Sanlam chairman Mr Marinus Daling said in his address to the conference that "the most important of the general requirements" of a partnership between the public and private sectors was that of fiscal certainty.

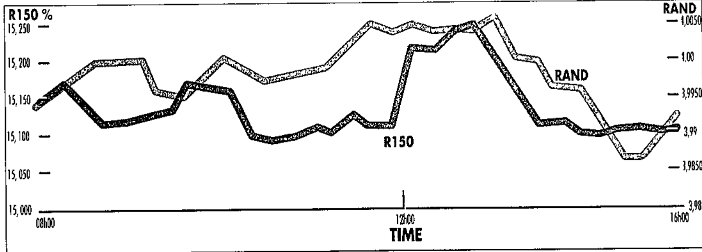
This included the government ensuring that fiscal transfers were secure, that income streams were protected along with government responsibility in the event of default, and that a "transparent and flexible regulatory framework" be created to watch over public and private sector interactions.

The National Infrastructure Investment Framework (NIIF) includes R81bn to R85bn by public utilities, Eskom, Telkom, Transnet and the water boards, and a substantial portion of this funding will be raised through borrowing.

"Depending on the growth scenario and the extent of institutional change, the central government's budget will have to provide between R62bn and R80bn over the next five years."

Key features include:

- R25bn over five years on electricity generation and transmission, and the grid electrification programme will add R6-R12bn to the sector's financing requirements over the period.
- R23bn expenditure on urban water and sanitation if a full level of service is to be implemented in five years. Total off-budget funding for water and sanitation is put at R22-R28bn over the next five years, peaking at R5bn a year.
- R14bn over the next five years on transport infrastructure, enabling the elimination of the proclaimed road backlog in 17 years. Municipalities could be expected to add a further R10 to R15bn on investment in urban roads.
- Upgrading of ports, airways and railways at an envisaged R19bn.




SHUFFLING THE PACK

*Chris Liebenberg* *Trevor Manuel* *Gill Marcus* *Alec Erwin*

(49) CT(BR) 29/3/9

# Business reacts favourably to Manuel

By Nancy Myburgh and Sean Feely

Johannesburg — Business expects Trevor Manuel, the outgoing minister of trade and industry, to pursue the government's deficit reduction targets when he takes over from Chris Liebenberg as finance minister on April 4.

In his Budget on March 13, Liebenberg said that the government was aware of the need to cut the deficit to below 4,5 percent of GDP by the end of 1999.

"I am sure about it," said Michael Spicer, an alternate director at Anglo American, referring to Manuel's commitment to fiscal discipline.

Viv Bartlett, chief financial officer at First National Bank, agreed. "Yes, I think the needs of the country are such that fiscal discipline has to be there. We cannot afford to relax it."

Manuel's close ties with Liebenberg would also ensure continuity in fiscal policy, said Dennis Dykes, the chief economist at Nedcor. "In all the meetings I've been to when Chris Liebenberg has been there, he has always been accompanied by people like Trevor Manuel. They've been like a team."

The appointment of a senior ANC member to the key post of finance minister would bolster the government's effort to restrain spending demands, they said.

"There's a lot of pressure from ministerial colleagues and other stakeholders, so it's desirable he would be able to fend off those challenges," said Spicer.

Though Manuel has differed with large corporations such as Anglo American on competition policy, Spicer said it was a difference of "means, not goals", describing Manuel as a "champion" of market reform.

# Manuel committed to policy of fiscal discipline despite the rumblings of prophets of doom

(44) (320) Star 20/3/96

By CLIVE SAWYER

Unfortunately for the new South Africa, prophets of doom have become a rapidly growing sector. On occasion, one might wonder whether jitters in the market are fuelled maliciously, as evidenced by earlier persistent speculation about President Nelson Mandela's health and subsequent rumours that he would quit at the end of this year.

Whoever spreads these rumours does the country a disservice, and if the dissemination is done in innocence, it betrays a profound failure to understand the dynamics of the Government of National Unity and its commitment to what Chris Liebenberg has called the mantra of fiscal discipline.

Swiftly following this week's announcement of Liebenberg's return to private life were predictions that the rand would slide further, and that international bond investors would be cautious about South Africa because of the rate at which it has gone through finance ministers – two since the 1994 election.

Minority parties were also quick to express alarm at the appointment of a finance minister from ANC ranks, apparently purposely unaware of the respect Trevor Manuel has earned for his handling of the trade and industry portfolio.

Negative reaction to Manuel's appointment displays a wilful denial of the initiatives he has taken towards leading South Africa towards its rightful place in world trade, and the rapid learning curve which will be to his benefit in his new job.

In a sense, it was a surprise to some that Manuel was not appointed finance minister immediately after the 1994 election, because it had seemed that his role as head of ANC economic affairs meant Mandela was grooming him to take over the national Budget. Informed economists have welcomed Manuel as "market friendly" and eager to abandon the country's remaining exchange controls.

It would be cause for worry if, two years after the election, there was a continuing failure to understand the role of a finance minister in the context of the Government of National Unity.

This is not to paint the National Party, or even the Inkatha Freedom Party, as the voice of sanity in the GNU, as no doubt both of these minority parties like to be seen.

But it is worthwhile pointing out that the GNU's commitment to fiscal discipline and responsible economic policy is closely linked to a broad national consensus on the issue. The ANC added to the debate with its statement that in other

TREVOR MANUEL: Holds the nation's purse-strings

democracies the finance portfolio was under the direction of the majority party. With supreme confidence, the ANC said Manuel's appointment should strengthen investor confidence at home and abroad.

Manuel himself was at pains to assure markets that he stood for continuity, and acknowledged that he and his new deputy, Gill Marcus, would have to work hard in the face of criticism by sceptics.

Also prone to misinterpretation was Mandela's announcement of changes to the handling of the Reconstruction and Development Programme portfolio. Jay Naidoo is to relinquish the RDP office to take over ousted Pallo Jordan's job as minister of posts, telecommunications and broadcasting. Superficial analysis was to see this as a vote of no confidence in Naidoo, who has been subjected to criticism for producing screeds of RDP-speak documents rather than houses, jobs and running water.

This misunderstanding is born partly of a failure to grasp the complexities of the RDP process, and that this week's shift of duties to the finance ministry and Deputy President Thabo Mbeki signals a new phase towards implementation.

While the National Party was quick to label the change as the abandonment of the RDP, the change is in line with the programme's developing linkage to all government functions. It has been clear from the outset that Naidoo's role was a short-term one, pending a more pervasive approach to reconstruction and development among all ministries.

There is further significance in the allocation of RDP programmes to Mbeki, who earlier this year was given the job of unveiling the Growth and Development Strategy, the companion programme to the RDP.

For the rest, the other changes and appointments announced by Mandela are a manifestation of the normalisation of politics. Cabinet reshuffles are the norm in all countries, and Liebenberg's departure gave Mandela the opportunity to reward merit and potential, while furthering his government's commitment to a strong role for women in government.

Gill Marcus, the new deputy finance minister, matches both criteria, having gained respect for her role as chairman of the joint standing committee on finance.

Other appointments this week were unionist Susan Shabangu as deputy minister of mineral and energy affairs and Phumzile Mlambo-Ngcuka as deputy minister of trade and industry.

# Economists optimistic that Manuel is market-friendly

(49) Star 30/3/96

Trevor Manuel, former socialist, activist and now the new finance minister, will press ahead with building a market-friendly economic strategy for South Africa, economists predicted yesterday.

That would include the phased dismantling of remaining foreign exchange controls – a key barrier to South Africa's integration into the world economy – and selective privatisation.

Manuel himself has pledged not to deviate from the policies of his predecessor Chris Liebenberg, from whom he takes over on Thursday.

Economists said Manuel could, if anything, speed up the removal of exchange controls.

"There are some concerns in the market that he may go for a more rapid approach. But it's unlikely that the Finance Ministry will ignore the advice of the Reserve Bank for a gradualist policy," said Bruce Donald, economist at SBC Warburg.

Another economist, who asked not to be identified, agreed. "There is a bigger risk that Manuel will go faster rather than slower," he said. "If one looks at his performance as trade and industry minister, he was very keen to get rid of tariffs – and tariffs and exchange control are part and parcel of the same thing."

Annelise Peers, a fixed-income analyst at Investec Bank, said Manuel might want to act faster, but the cautious hand of Reserve Bank governor Chris Stals would be a constraint.

## Closer to labour

"The timing will not change with Manuel in charge. Any decisions will still have to be taken together with the Reserve Bank," she said.

Manuel, with his background in the labour movement, might also be able to sponsor the Government's privatisation programme more effectively than Liebenberg, analysts argued.

"Manuel's appointment is good for the privatisation process as he is closer to labour and he may be able to convince them," Peers said.

Government plans to sell off some non-strategic state enterprises and find strategic equity partners for others were fiercely attacked by trade unions at the end of last year. That led to the establishment of a consultation process with labour. Old Mutual economist Dave Mohr said: "The agreement reached with labour will dictate the path of privatisation, more than a new minister of finance will."

Life investment group Syfrets said in a statement: "There is concern about the level of economic expertise of some of the new appointments, in particular Trevor Manuel."

Another area of possible tension would be Manuel's relations with the Reserve Bank, and in particular with Stals.

"The past two ministers (of finance) were both non-politically aligned, and now we have a department headed by two ANC ministers. There may be some pressure on the Reserve Bank to do what the Government wants, rather than to act independently," one economist said. – Reuters

# New finance boss Manuel vows to tax SA 'smarter, not harder'

By RAY HARTLEY
Political Correspondent

TREVOR MANUEL, South Africa's new Finance Minister, says he will live up to the ANC's promise that government should "tax smarter, not harder" and broaden the pool of taxpayers.

Mr Manuel told the Sunday Times he supported the "general thrust" of the Katz commission on taxation, including increasing the number of taxpayers, simplifying the tax structure and getting tougher enforcement.

"The reward would be a higher yield, which gives you the manoeuvrability that does not exist at the moment," he said.

Mr Manuel takes over political responsibility for tax collection, including the customs service, of which he has been highly critical in the past.

"I've not spared the customs service public criticism, but for a very good reason — no industrial policy can have any integrity until such time as we have efficient customs enforcement," said the country's first black finance minister.

The establishment of the new Revenue Service, which amalgamates Inland Revenue and Customs and Excise, was "exceedingly important" as it would improve revenue collection.

Mr Manuel said business would have to adapt to the fact that they now had a finance minister who did not come from their "inner circle".

"It's about proving the cynics wrong, and saying decisions are taken on a range of factors, carefully considered, that extend way beyond the sometimes capricious basis on which markets move."

Mr Manuel said he fully supported changes to the way the country ran its finances, outlined by his predecessor Chris Liebenberg in his Budget speech.

These included:

- The establishment of an expenditure evaluation unit to make sure government money was used properly;
- Better management of South Africa's massive foreign debt; and
- The use of the Medium Term Expenditure Framework, which would lead to better long-term budgeting.

"We need to check not only that no one is stealing money, but that the money and resources are being utilised in a way that is entirely compatible with policy," he said.

Although South Africa spent a greater portion of its gross domestic product on education than most countries, it still had a "lousy education system" because the money was not being used properly.

"The answer can't be just allocating more resources," he said.

On the management of provincial finances, which was described as cause for "grave concern" by the auditor general this week, Mr Manuel said: "The finance ministry is not unhappy about what happened. The auditor general takes another view. I think the jury is still out.

"I would like to see us strengthening the hand of the provinces, increasing the capacity of provinces to implement that part of the fiscal arrangement."

# Inequalities highlighted

Sowetan 2/4/96

By Abdul Milazi
Labour Reporter

ORGANISED labour yesterday released a social equity and job-creation policy document aimed at addressing social and economic inequalities in South Africa.

Labour's chief negotiator, Mr Ebrahim Patel, said if implemented the proposed plan could create between 350 000 and 550 000 jobs and build at least 300 000 houses for the homeless.

The document, compiled by South Africa's three major trade union federations – the Congress of SA Trade Unions, the National Council of Trade Unions and the Federation of SA Labour – has identified key issues such as mass housing programmes and the redistribution of wealth as the only way to achieve social equity in the country

It also says the reduction of the vast inequalities in society should include the eradication of poverty, promotion of worker rights, increased employment and the provision of basic infrastructure for all citizens.

According to a survey by the Human Sciences Research Council, the poorest of South African households (40 percent) earned less than six percent of the country's total income, while the richest (10 percent) earned more than half the total income.

The survey further revealed that while Africans made up 76 percent of the population, their share of income amounted to only 29 percent of the total income

A recent study by the Key Indicators of Poverty in South Africa rated the country as among the highest with income inequality in the world.

Cosatu general-secretary Mr Sam Shilowa said organised labour had helped the majority of South Africans to get the vote and now they would ensure that the vote "means something".

Nactu general-secretary Mr Cunningham Ngcukana said the trade union movement needed to move from shouting slogans and come out with concrete proposals on what should be done to address the inequalities.

The document, which would be negotiated at the National Economic Development and Labour Council, also proposes the modernisation of the country's industry base, a ban on overtime to create more jobs, the redistribution of land to the poor and the reduction of consumer tax.

# Ways to end poverty

(49)(82) Sowetan 3/4/96

The trade union movement is leading the fight to address the country's social and economic inequalities. Labour Reporter **Abdul Milazi** looks at its proposals for social equity and job creation...

ALMOST TWO YEARS AFTER South Africa embraced a democratic system of government, the country is still characterised by vast economic and social inequalities.

This is the view of three major trade union federations, which released a policy proposal document on social equity and job creation at a Press conference this week.

The document is the result of months of discussions between the Federation of South African Labour, National Council of Trade Unions and Congress of South African Trade Unions.

At the Press conference, Nactu general secretary Mr Cunningham Ngcukana said the union movement must move away from shouting slogans and put forward concrete proposals on what should be done to correct the imbalances.

## Active promotion

He argued that the active promotion of social equity was the key objective of organised labour because many South Africans are poor, underpaid, unemployed and homeless - their basic needs are not being satisfied by the present economy.

The document further charges that the country's economy is still in the hands of the minority, who acquired control over it through land dispossession and the exploitation of black people.

"In more recent times business has engaged in speculative activities which have served to foster unproductive economic activities," the document says.

"Instead of investing in plant, equipment and people, it has invested in shopping malls and huge glass and concrete towers as monuments to the sterility of the corporate and financial sector".

## Glaring inequalities

The document quotes statistics from a survey by the Human Sciences Research Council, which reveals glaring inequalities.

According to the HSRC survey, 40 percent of South African households earn less than six percent of the country's total income, while the richest – a mere 10 percent – earn half the total income.

It also states that although blacks make up 76 percent of the population, their share of the total income amounts to only 29 percent. Whites, who make up less than 13 percent of the population, earn 58,5 percent.

The survey points out that South Africa compares with Brazil in having the highest income inequality.

In South Africa the poorest, who make up 53 percent of the population, account for less than 10 percent of total consumption, while the richest, a mere six percent, consume over 40 percent.

**Cosatu's Sam Shilowa ... inequalities are the result of deliberate policies.**

**Nactu's Cunningham Ngcukana ... unions must move away from shouting slogans.**

"Of the poorest, a third live in shacks or traditional homes and 80 percent have no access to electricity, 70 percent do not have tap water and more than 80 percent have no access to modern sanitation," the survey says.

Cosatu general secretary Mr Sam Shilowa argued that these inequalities were not accidental, but the result of low-wage policies and deliberate policies of the old government to underspend on social services for blacks.

He pointed out that economic growth can enhance social equity only when more jobs are created and when enough of the resources generated are ploughed back into the development of communities.

The document points out that reducing inequalities should involve the redistribution of wealth, promotion of workers' rights, increased employment, development of people and the provision of basic infrastructure and services to all citizens.

To advance these goals, the federations proposed that at least 300 000 houses be built each year for three years. They say such a programme would create between 350 000 and 550 000 jobs.

The federations further propose the modernisation of the country's industrial base to foster job creation.

They also propose establishing a National Restructuring Fund to finance the introduction of new technology and organisational assistance where companies are able to show increased production and the creation of new jobs.

The federations also propose expanding the savings rate in South Africa as a means of financing new investment: "An important means of achieving this is through the promotion of savings levels from workers, through strengthened provident and pension funds."

A ban on overtime is proposed as well to ensure that more people are employed. "Not all overtime is able to convert into fulltime work; nonetheless, large numbers of new jobs can be created should overtime be cut," the document states.

It is also argued that the domestic market should remain the main focus of the output of local goods because it constitutes a major market where local producers have all the advantages of quick delivery.

## Domestic demand

"Instead of the current attempts to cut down domestic demand, we argue for wage and income policies which expand the local market for manufactured goods and services," states the document.

In addition, the document argues that small-scale farming is important for the country's economic growth and requires land redistribution to the poor.

The federations further propose a reduction in Value-Added Tax because it applies to the poor and unemployed equally.

The document argues that a recent study by the Finance Department shows that the very poor pay 9,1 percent of their income on VAT, while the wealthy pay between 5,04 and 5,5 percent.

Another proposal is that much of the country's budget should be redirected towards services and infrastructure for the poor.

Whether these proposals will work in the present economic climate remains to be seen.

GROUP'S ECONOMIC STRATEGIES 'DANGEROUS'

# Outrage at 'big boys club'

(49) (52) CT 3/4/96

**THE BRENTHURST GROUP**, representing almost the entire formal economy, has upset unions and Labour Minister Tito Mboweni with its proposals. **BARRY STREEK** reports.

DISCLOSURES about an influential big business organisation, the Brenthurst Group, and its takeover of the South African Foundation to promote free trade as the key to economic growth has provoked a sharp reaction at union and cabinet level.

The three major trade union federations have described the group's strategies, released by the foundation as a "Growth for All" document, as "a well-financed and well-publicised campaign to cling on to their wealth".

Business organisations, particularly the South African Chamber of Business (Sacob), have been sidelined by the Brenthurst Group.

Details about the group have been given in a report, The Empire Strikes Back, by the monthly magazine, Millenium, in its latest issue.

"They are galvanising their ideas and resources in the belief that for South Africa to succeed, the country must move away from its present dream of 'development' economics and concentrate instead on economic growth to drive its development requirements," Ingrid Uys wrote.

She said the "powerful and discreet institution" came into play when President Nelson Mandela approached the country's foremost business leaders in 1994 and asked them to constitute themselves as a sounding board on macro-economic issues.

The Brenthurst Group, named after the residence of its host, Mr Harry Oppenheimer, was formed in response.

**HOST:** Mr Harry Oppenheimer

Other members include Anglo American chairman Mr Julian Ogilvie-Thompson, Rembrandt Group founder Dr Anton Rupert and SA Mutual chairman Mr Mike Levitt. "Their collective industrial power represents virtually the entire formal economy," Uys wrote.

The group has decided to revive the SA Foundation, under former ambassador to the European Union and former director-general of foreign affairs, Mr Neil van Heerden, as its vehicle.

Details of the group's strategies have provoked widespread opposition. Labour Minister Tito Mboweni described the proposals as "dangerous". He said the document had failed to address black advancement or the need for anti-trust legislation.

The Congress of South African Trade Unions, National Council of Trade Unions and Federation of South African Labour Unions say in their document, Social Equity and Job Creation: The Key to a Stable Future, that high levels of economic concentration have a major negative effect on social equity. "The concentration of power ... limits the prospect of inclusive economic decision-making."

# Government seeks tailor-made financing

A partnership between government and private sector has been formed to tackle development backlogs, writes **Lynda Loxton**

GOVERNMENT and the private sector are investigating innovative financing packages to foot the estimated R170-billion to R230-billion bill to tackle infrastructure backlogs throughout the country.

They met behind closed doors in Cape Town last week to examine various options and, although several technical details still have to be finalised, appear to be keen to co-operate.

But as newly appointed Trade and Industry Minister Alec Erwin warned, neither side should approach this with expectations of a "big bang" that would see overnight changes and results.

Erwin said it was clear the infrastructural needs identified could not be funded only by the national Budget, or by the national development finance institutions (NDFIs) such as the Development Bank of Southern Africa.

"Another position argued is to privatise the whole thing and allow the private sector to get on with the job," Erwin said.

"Rather than adopting either of these extreme positions, government is developing various tailor-made institutional and regulatory measures ... in partnership with the private sector."

He said four basic sources of finance were available. These included fiscal transfers, which could be seen as equity in projects, concessional finance from various multilateral institutions and international sources, development finance from the NDFIs and loans raised on commercial terms from the capital markets.

"The nature of the projects and their risk and revenue profiles will determine the funding mix," Erwin said.

To make this work, government had to ensure there was effective public-sector debt management, appropriate regulatory frameworks and stable multi-year budgeting.

"All these elements are being put in place," he said.

Key to this would be the restructuring of NDFIs, which Erwin said were fragmented, lacked policy co-ordination and tended to crowd out capital market operations rather than "crowding in additional resources for development".

Alec Erwin: 'All the elements are being put in place' PHOTO NATASHA PINCUS

He said the infrastructure programme was a major structural change for South Africa and called for the creation of possibilities that the market itself would not have created.

Government was not well-suited to play a leading role in project financing and the NDFIs should be restructured to be the leading public sector instrument to facilitate development.

He envisaged the NDFIs as acting as a bridge between the Budget and private capital and said the private sector also had to "develop new expertise in operating in regulatory environments, taking on longer-term investments and working in a close relationship with the public sector.

"The private sector cannot expect the state to assume all risk while they are only involved in cherry picking (picking only the low-risk, high-profit investment options)."

In his presentation, Standard Corporate and Merchant Bank managing director Jacko Maree said clarity, consistency and certainty on the regulatory framework would be vital for private sector participation.

Both he and Erwin agreed that the NDFIs should, in particular, concentrate on strengthening the ability of local authorities to implement and raise funds for infrastructural projects.

Erwin said the government wanted to give the private sector the confidence that "someone is ensuring that the overall system is working. On the other hand, we do not want to create a situation in which central government will simply bail out local authorities when problems occur.

"This would create a range of implicit guarantees and contingent liabilities which are unacceptable to us and will lead to irresponsible lending and borrowing practices," he said.

Central to the viability of any investment programme would also be to ensure that ordinary citizens paid for the services provided in any infrastructure projects, while government continued to examine ways of covering the costs of those households that genuinely could not afford

# Labour gets to work

(49) M+G (PM) 4-11/4/96

Labour's controversial proposals have pitted it against business, write **Jacquie Golding-Duffy** and **Madeleine Wackernagel**

**Sam Shilowa: Cosatu's general secretary presented organised labour's growth plan this week** PHOTO: RUTH MOTAU

LABOUR and business were in direct conflict this week with the release of labour's proposals on growth, development and job creation. The document says "hard choices" have to be made by the economic elite if social equity is to be achieved.

Businesses may not know just how hard, especially if the Congress of South African Trade Unions (Cosatu) has anything to do with it.

Cosatu assistant general secretary Zwelinzima Vavi says the document is "crucial" and will have to be central to any economic policy that is formulated by government, business and labour.

The blueprint, Social Equity and Job Creation — the Key to a Stable Future, was released this week by Cosatu, the National Council of Trade Unions (Nactu) and the Federation of South African Labour Unions (Fedsal).

The document follows similar initiatives by government, and the South African Foundation's input into the debate on economic transformation.

Vavi says Cosatu wants "whites to give up their privileges" and stop resisting the fact that they have to let go of the economic reins of power.

In a scathing attack on the SA Foundation and its document, released at the end of February, Vavi says the document is Growth for a Few as opposed to Growth for All.

"Business is not being singled out. Workers are also making sacrifices but [business] has to realise that the stage has been set for a fight between us and them."

Labour's blueprint does not aim to please the business sector — nor does it. The document raises "serious concerns", says the South African Chamber of Business (Sacob), while Nico Czypionka, chief economist of Standard Bank and one of the architects of the SA Foundation's framework, calls it "unworkable".

"There appears to be a basic difference in the philosophical approach which drives the labour proposals and the views of the business community — with labour appearing to favour an approach that 'protects' jobs and creates employment by harbouring inefficiency and increasing rigidity," says Sacob.

The tax proposals worry Sacob and Czypionka. Any increase in business taxes would deter foreign companies, whose interest in fixed investment here was tenuous at best, says Czypionka.

Zunaid Moolla of the National Institute for Economic Policy believes the plan had much to offer: "Myths about the impact on foreign investment are misplaced; once we have got growth going, and income distribution is improved, investment will pour in."

A *bosberaad* is due between government, labour and business and, says Vavi, labour's blueprint will be central to it. He says the other documents submitted will be considered, but labour's position is now been spelt out. Mass strikes by Cosatu's affiliates to achieve its goal, he says, are not "an impossibility" and "cannot be ruled out".

"It is clear that business feels government should remain out of the picture and merely play an administrative role but labour feels government should be more involved," Vavi says.

The National Economic, Development and Labour Council (Nedlac) says it "welcomes the document as labour's input into the process of debate on economic transformation".

Nedlac programmes director Debra Marsden says the documents submitted by all quarters to further the debate on transformation and economic empowerment will serve as the basis of discussion over the next few months within the highest ranks of the council.

Vavi stresses that a critical requirement for the new democracy is "the active promotion of social equity" and this is the key objective organised labour has set for itself.

The document outlines that social equity in South Africa, and particularly the reduction of the vast inequalities in the society, must entail:

- redistribution of wealth,
- the eradication of poverty,
- the promotion of worker rights,
- increased employment
- the development of the full human potential of our people, and
- the provision of basic infrastructure and services to all citizens.

Vavi says labour's contribution to the economic debate is a bid to clarify what it sees as the current economic situation and also to expand on labour's overall vision for the future.

The document continues to say that the inequalities prevalent in South African households are not accidental but are the natural outcome of low wage policies followed by the private sector and the deliberate policies of the former state to under-spend on social services for black people.

COSATU'S SIX PILLARS OF GROWTH

# RED HERRINGS AND RHETORIC

FM 5/4/96 (49)

**Perceptions of** how best to foster growth are rooted in economic philosophies. So it's not surprising that Cosatu — with its roots in international socialism — sees one of the main pillars of growth in SA as "breaking the stranglehold of business in the economy."

Following the recent publication (by the SA Foundation) of a growth strategy advocated by big business, SA's largest trade union organisation, together with Nactu and Fedsal, has published a document called *Social Equity and Job Creation* It proposes the negotiation of a new antitrust policy And it says that "organised labour will now set up an antitrust commission to report concrete proposals within two months. We will seek far-reaching changes to the corporate structure."

It describes the foundation's proposals as "sterile" and says members have created a range of red herrings, such as an alleged labour elite. "In so doing, they seek to let poor people pay for growth and development, while keeping the wealth and power of the privileged intact."

Labour fears that "with the wrong policies we may achieve either no growth or growth which benefits shareholders but offers no equity to workers and the unemployed."

Big business is accused of "seeking to repudiate key elements of agreements reached by its representatives with labour and government, on centralised bargaining, at the national economic forum in 1993 and on the Labour Relations Act, at Nedlac in 1995."

The unions put forward six pillars of growth "based on SA realities "

The first is a job-creation programme. Among other things, it proposes:

- The State builds at least 300 000 housing units each year over the next three years. "Initial calculations show that, over this period, 150 000-220 000 direct construction jobs can be created. An estimated further 200 000-330 000 indirect jobs may be created." The cost of this effort is put at about R30bn over three years, at current prices,"
- Modernisation of our industrial base "A more efficient industry would be able to win back parts of the domestic market that have been lost to imports. It is the essential platform from which to launch a successful export effort."

It proposes the retention and expansion of fiscal measures to encourage reinvestment of corporate profits, and the setting up of a national restructuring fund to finance the introduction of new technology and work organisation;

- Job-sharing;
- A pragmatic programme "which lowers tariffs carefully and not quicker than required under the terms of the General Agreement on Tariffs & Trade . pragmatic trade policies geared towards opening up the economy in a manner which will not lead to massive job losses " The unions stress the importance of "concrete social adjustment programmes to ensure workers do not bear the brunt of the globalisation;"
- Expansion of domestic demand and promotion of local purchasing policies "We argue for wage and incomes policies which expand the local market for manufactured goods and for services This approach should be combined with efforts to increase the efficiency of production;" and
- Training and development of the work force.

The second pillar is redistributive fiscal policies to redirect spending towards social services for the poor and increase the redistributive features of tax policy.

However, this would involve an increase in corporate taxation, a reduction in Vat, a 55% tax rate on individuals earning more than R200 000 a year, a capital gains tax and a luxury goods tax. And it questions the need for a Budget deficit reduction

The third pillar is aimed at "big conglomerates (which) own banking, mining, industrial and retail businesses" because "the concentration of power in a few hands limits the prospect of inclusive economic decision-making." And it includes an organogram showing companies "under the effective control of Anglo American."

The fourth pillar is improvement of workers' rights In this context, it's proposed that the top 58 companies — which are named — publicly agree to release information on the pay of their individual executive directors, "particularly their CEOs."

The proposal will be put to the 58 companies.

The fifth pillar is greater industrial democracy and the sixth is championing economic development and workers' rights internationally.

Cosatu is motivated by income inequality "According to the Human Sciences Research Council, the poorest 40% of households earn less than 6% of total income, while the richest 10% earn more than half the total income. While blacks make up 76% of the population, the black share of income amounts to only 29% of total income. Whites, who make up less than 13% of the population, take away 58,5% of total income "

It points out that SA has "among the highest income inequality in the world" and says: "Even commentators not particularly sympathetic to organised labour are struck by this contrast "

Inequitable income distribution of this order certainly demonstrates huge distortions in the economy But these won't be solved by contorting further the forces of growth. ■

# The yawning chasm between organised labour and business

(49) ST 7/4/96

**South Africa's top companies and biggest trade unions have widely divergent views on how to make the economy grow, reports CAROL PATON**

WHEN the SA Foundation unveiled its plan at the end of February to create economic growth in South Africa, it set the stage for renewed debate on the economy.

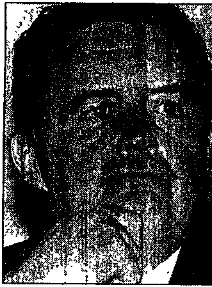
This week, it was labour's turn to take the stage with its document "Social Equity and Job Creation".

At the outset, labour (that is, the Congress of South African Trade Unions, the Federation of South African Labour Unions and the National Council of Trade Unions) states its overriding goal as the pursuit of greater social equity.

Labour proposes six pillars to its social equity and job creation plan: a programme to create jobs, a redistributive fiscal policy, breaking up the conglomerates, promoting worker rights, building industrial democracy and steps to promote equity and economic development globally.

The foundation's "Growth for All" strategy rests on five pillars, all essential to boosting the investment and efficiency that leads to growth: a solid legal framework, sound macro-economic policy, efficient government, competitive markets and an outward orientation.

Over the coming months many of the issues raised in both the documents will be debated in the chambers of the national



**LESLIE BOYD: Chairman of Amic, which sponsored the SA Foundation document**

economic development and labour council.

But the vast differences in approach means that there are substantive gaps between labour and business in almost every area of policy.

These are some of them:

## Job creation, wages

A large part of labour's document is concerned with strategies to create jobs. It proposes a large public works and housing programme, estimating that if the government was to build 300 000 houses every year for three years, 350 000 to 550 000 new jobs would be created.

It also proposes saving jobs by removing trade tariffs slowly, winning the consent of business to stop retrenchments, and restructuring the public sector through retraining and redeploying staff rather than through job cuts.

It proposes a wage policy that would increase the buying power of workers in order to stimulate the domestic market. This need not be inflationary, the document argues, if accompanied by changes to make production more efficient. Efficiency can be improved through various productivity-enhancing measures, especially the training of workers, but also through cutting management jobs and reducing the salaries of top executives.

The most important strategy for job creation proposed by the foundation is the creation of a low-wage sector. According to the foundation, this strategy would lift three times as many people out of poverty than ordinary economic growth could.

The foundation believes trade unions have pushed wages above market levels.

## Labour market

The foundation's low-wage strategy entails freeing the market from labour market controls. "Reforms are needed to allow a free-entry, flexible wage labour tier in the formal sector next to the existing high-wage, capital-intensive tier," its document says. These reforms include exemption from existing wage agreements and from most basic employment standards.

In contrast, labour suggests the need for additional labour market mechanisms to improve the quality of life and income of workers. Among these are: national industry-wide collective bargaining forums, a 40-hour week and paid maternity and child care leave.

## Fiscal policy, deficit

In labour's view, fiscal policy should be a means of enhancing the state's capacity to embark on social equity programmes. It proposes: increasing corporate taxes, removing VAT on basic goods, a tax on luxury goods and taxing those who earn more than R200 000 at 55 percent.

**EBRAHIM PATEL: Textile union leader and author of the new labour document**

Labour argues that the deficit — the difference between state spending and income — is being reduced too fast and will lead to job losses and slowed down growth.

The foundation argues that the deficit is too high and should be brought down much faster if SA is to compete favourably with other developing countries for investment. Cutting the deficit would bring interest rates down and encourage investment. But to do so without raising taxes, state spending needs to be cut.

The foundation envisages drastically cutting the number of civil service jobs and reducing welfare spending.

Corporate taxes should be cut, VAT increased and the tax system simplified, it says.

## Privatisation

This area is not given much attention in the labour document, but the foundation says it must be done rapidly to make the economy more efficient and to generate resources to reduce the deficit.

The social equity document will form the core of labour's submissions to Nedlac. Business South Africa, the convenor of business in the council, is known to be working on a new document in which its proposals to Nedlac will be tabled.

With two opposing positions on the table, all eyes are now on the government, whose growth and development strategy document is due to be completed this month.

Labour's document seems to have been welcomed in many government circles already. Many of the proposals it makes — on employment equity, basic standards and training — are areas already being seriously considered by the government.

# Bid to beef up controls on provinces

(49) BD 10/4/96

Greta Steyn

THE state expenditure department and the provinces have agreed on a 10-point plan to beef up the provinces' financial controls which in some cases have been seriously lacking.

State expenditure director-general Hannes Smit said yesterday the department was helping provinces get financial management up to scratch. The dark picture painted by auditor-general Henri Kluever of the provinces' financial affairs had brightened.

The 10 points provinces had agreed to address were: financial systems, competence of available financial staff, internal auditing and controls, budgetary processes and capacity, data capturing and accounting, suspense account management, control over government cheques and bank reconciliations to ensure proper cash flow management, monthly and annual closing of books, financial management and reporting and control over assets.

Sources said the most serious problems had arisen over cash-flow man-

Continued on Page 2

# Provinces

(49) BD 10/4/96

Continued from Page 1

agement and had often been the result of staff problems relating to the transition from the homeland bureaucracies to the new provincial structures. There had also been accounting problems relating to the transfer of functions, when one province had to carry out functions on behalf of another province or government department.

The plan meant each province's finance MEC had monthly meetings with the other MECs to ensure the 10 points were followed. State expenditure also kept track of progress, although it was constitutionally not allowed to intervene.

Smit said the provinces' greater fiscal autonomy meant state expenditure's committees which had decided on the spending for each function — such as health or education — had had to be abolished. Instead, co-ordinating committees would be created so that national ministers could liaise with provincial MECs over policy.

# R10m for cost-cutting govt body

Tim Cohen (49) BD 10/4/96

CAPE TOWN — Government had allocated R10m to a new cost-cutting body, the Expenditure Evaluation Unit, and expected immediate and "spectacular" cash savings from the unit during the current financial year, state expenditure director-general Hannes Smit said yesterday.

Although the body had been approved by the Cabinet early this year, no one had been appointed to head it yet, he said.

It was hoped that Deputy Finance Minister Gill Marcus would take responsibility for the unit.

Smit said former finance minister Chris Liebenberg had wanted the body to be led by a politician who could decide whether government programmes were in line with government policy.

The unit would differ from the auditor-general's office, which for the most part made audit judgments according to prescribed rules on whether government spending was in line with budget appropriations.

The establishment of the unit was motivated by the belief that many government programmes were simply hangovers from the past administration and not in line with the policies of the government of national unity.

Smit conceded that the body had the potential to be unpopular, as it would effectively be second guessing the judgment of departmental heads. But he stressed that the unit could also be

Continued on Page 2

# Costs (49) BD 10/4/96

Continued from Page 1

used as a tool by ministers, who had supported its establishment.

He said the unit would be looking for cash savings on expenditure and would identify projects that could be cut. If the unit was successful during the 1996/97 financial year, its functions could be broadened to include investigations to determine whether spending was effective.

There was no target for expected savings, but government was seeking a "spectacular" return on its investment, Smit said. It was inconceivable that it would yield lower savings than its R10m budget.

The body would have no formal power but would make recommendations to the finance department and the ministers of the departments concerned. Its reports and findings would remain internal matters unless the finance minister decided otherwise, Smit said.

# Business, government still wrangling over cuts

BD 12/4/96 (49) ([illegible])

John Dludlu

GOVERNMENT and business are continuing their long-running wrangle over the planned cut in export subsidies, with no solution in sight, sources close to the National Economic, Development and Labour Council say.

The showdown, the first face-to-face encounter between the parties since their differences were aired, happened at Nedlac's trade and industry chamber meeting yesterday.

Sources said business had used the meeting, attended by the trade department's director-general Zavareh Rustomjee, to launch a "diatribe" at government over its plans to cut the general export incentive scheme's subsidy to 6% in July from its current 12%.

Business accused the trade and industry department of reneging on its promise that the scheme would be phased out slowly before its termination next year, and that business would be provided with warnings on changes.

"All we want from him (Rustomjee) is that he keep his promise," a business source said. "It augurs badly for the future that government can make commitments and then go back on them."

Rustomjee said department difficulties had prompted the move to cut the subsidy. These included severe cuts to the department's budget.

The other area of contention was whether business had advance warnings of the mooted cuts — the department believed this had been done at meetings with business groupings such as Sacob. However, a senior business source said: "Government warned us informally, but said that those meetings (at which impending budget cuts were discussed) were confidential, so we could not tell exporters."

Rustomjee never said whether the cuts would definitely be made.

See Page 6

# Deep divisions over SA economic policy

BD 15/4/96 (49)

Greta Steyn

DEEP divisions between business, labour and government on SA's economic policy are clear in Business SA's policy document, which will be used to negotiate at the National Economic, Development and Labour Council.

The document, which draws heavily on the work of one of BSA's member organisations, the SA Foundation, again challenges the union movement to become more flexible.

The SA Foundation document, Growth for All, prompted an angry reaction from labour with its call for a more flexible labour market.

Labour Minister Tito Mboweni, who had not yet seen the BSA paper but intensely disliked the SA Foundation's work, at the weekend raised doubts over the possibility of reaching consensus on an overall social accord on economic policy. "The differences are from Cape to Cairo."

He believed a better approach might be to tackle individual issues in Nedlac on which consensus was more probable, and to build a series of accords. "There needs to be a discussion about what is meant by social accord."

The BSA document also recognised the need for further discussion on the different options of an overall social accord; a series of "mini-accords"; or some other mechanisms.

Although the BSA document is less aggressive in tone than its predecessor from the SA Foundation, it echoes the same sentiments on labour: "It will be necessary to make the labour market significantly more flexible. In the absence of progress on this front, even higher growth will not stop the rising tide of unemployment and poverty."

BSA's differences with government are also clear in its views on fixed investment. Government has indicated that huge investment in social and economic infrastructure should drive

Continued on Page 2

## Policy divisions (49)

Continued from Page 1

economic growth, while the BSA argues that a dramatic increase in private fixed investment is the key.

The BSA sees the eight essential elements for job-creating growth as: reducing crime and violence; fiscal reform; accelerated privatisation; reforming inappropriate labour market institutions; expanding and improving education and training; improving productivity; a vigorous export drive and small business development.

These elements do not coincide entirely with the SA Foundation. Important additions to the business approach are the view that "improved management is essential for higher productivity", as well as the need for small business development.

BSA also emphasises the need to expand and improve education and training. These additions serve to soften the impression of big business fighting for its own interests.

The BSA document fails to call for the strengthening of competition policy, although it says "rules inhibiting competition" need to be dismantled. It also does not tackle fiscal incentives for investment, which has been the source of disagreement in business ranks.

The BSA says: "A common framework should acknowledge that higher growth and poverty elimination require far higher levels of private investment, complemented by appropriate public fixed investment, and far higher levels of labour utilisation accompanied by increased levels of education and training.

"It ought also to support measures aimed at ensuring a competitive environment, private ownership, rule of law and macroeconomic stability as the sources of efficiency."

BD 15/4/96

# ‘ANC focusing on economy as key arena of struggle’

**MR CYRIL RAMAPHOSA talks to MZIMKULU MALUNGA, AGGREY KLAASTE and MIKE SILUMA about his move from Parliament to New Africa Investments Limited (Nail).**

**WHY did you decide to leave politics to join a black company that is a key player in the economy?**

Given our country's transformation challenge to have an economy that will have sustainable growth, I see joining Nail as a move to another terrain of struggle. After the success of the political struggle, I see this as an attempt to play a role in that area.

The economy is one of the spheres where the legacy of apartheid remains acute. We are likely to see more key black political leaders entering the economy. This is a national mission and not so much a question of a few people enriching themselves.

However, we need to be creative and look at how to give meaning to the whole concept of black empowerment. Is it the enrichment of a few or is it a situation where we create vehicles that can help empower people?

The orientation of white business, which has been very successful, has always been: "We are going to help empower our own." I think it is about time that among black people we begin to have that kind of approach.

**How will your joining Nail be seen by the financial markets?**

Rather than being seen as an event that will dampen the markets, I think it should be viewed as an affirmation of what we want to achieve as a movement, as a people and as a country. In our political circles, the business sphere was always looked down upon. We have done this to our own detriment and to the detriment of the country.

I think getting into corporate Africa, being part of Nail and working together with Dr (Nthato) Motlana, Dikgang Moseneke, Enos Mabuza and Jonty Sandler is going to mean that you have a concentration of rather able people who can attract a number of business opportunities. They will be able to add value to whatever operations or enterprises they get involved in.

One of my key interests is the area of small black business. I would like to see what we can do, what the economy can do, what the government can do to assist and to ensure that small black business does come into the mainstream of the economy.

**Will your move be seen as a desertion of your old constituencies, such as the trade unions?**

I have briefed comrades in the National Union of Mineworkers.

They are excited that I could be part of the Johnnic bid. Given the fact that unions are also getting heavily involved in business and are in many ways becoming employers, the ideological divide (of capitalism versus socialism), which existed in the past, is no longer the main issue.

**Are you leaving politics because you are out of the race to succeed President Nelson Mandela?**

I think presidents are made of sterner stuff. Being part of the ANC collective, we are not accustomed to saying: "This is my ambition." It is the ANC that finally decides what we should be and where we should go. It is the leadership of the ANC that has taken the decision that I should move in this direction. My deployment demonstrates how seriously the ANC is approaching the economy. Saki Macozoma has been deployed in Transnet. I am now being deployed in the private sector. The ANC is beginning to focus on the economy as the key arena of struggle to completely transform SA society.

**Does your move mean that the ANC is taking over Nail?**

A corporation such as Nail does not need a political name-tag. The important thing is that it should be a serious, efficiently-run business that is going to play a key role in the economy. It is sheer coincidence that I am ANC and Dr Motlana, the chairman, is known to be ANC.

**What is your role in the Johnnic bid?**

I have dealt with people who have been involved with the bid. I have been consulted and briefed on an ongoing basis, initially by the unions. Later I interacted on this issue with black business. The role I will play largely depends on what is decided by the parties that are involved in the bid, such as Nail, the National Empowerment Consortium and others. Johnnic is important because it is one of the possible key vehicles of black economic empowerment.

**What is the role of unions in the economy?**

Unions want to have a stake in the economy and I welcome that. This is something that big business should welcome. The unions are already demonstrating a good acumen for business. I have been, for instance, to the NUM conference and seen how workers have been analysing the reports of NUM investments with a great deal of pride, saying: "We own this. This is ours." Giving workers a stake is the way to go to ensure more people have a stake in the economy. Unions want to play a more meaningful role. They also have opinions about the growth of the economy. It should no longer be the prerogative of white business to play a key role in the economy.

**What is your view on unbundling and competition?**

Competition is the hallmark of any democratic dispensation. I firmly believe that our relations with unions must be consistent with good democratic principles. Competition is healthy. But where you are going to grow so big that you crush others who want to start playing a role in an area of business activity is unhealthy. Part of the problem in this country is that many of our companies have not been sharpened by the competitive spirit found in other countries.

**Has black empowerment meant the enrichment of only a few?**

My key objective in getting involved in Nail is to ensure that economic empowerment is seen to be real and to be to the benefit of the disadvantaged. We would need to hold discussions with the stakeholders, such as unions and politicians, to define what black empowerment is all about. I see the entry of unions into the economy as fulfilling an aspect of economic empowerment for workers. We need to be creative. The challenge of empowerment faces not only people such as myself, but also the union movement and everybody else, including the government.

● See Page 13

# Growth strategists told to 'enrich' plan

(49) BD 18/4/96

Greta Steyn

THE ANC's national working committee had sent the writers of Deputy President Thabo Mbeki's growth and development strategy back to the drawing board amid signs that it would be months before the package neared completion, sources said yesterday.

It is understood that the writers of the strategy have not yet managed to take it beyond the "wish list" stage. As a result, sources said government could be at a disadvantage in negotiations with labour and business over an overall social accord on economic policy in the National Economic, Development and Labour Council (Nedlac). Business SA and labour had put their documents on the table. Without an overall growth strategy from government, it seemed unlikely that an overarching social accord would be negotiated this year, a source said.

ANC spokesman Ronnie Mamoepa said yesterday the national working committee had accepted the work done so far in principle, but thought "more flesh" was necessary. "It needed to be enriched," he said. He denied speculation that the committee had rejected the strategy for being too conservative.

Labour Minister Tito Mboweni, who chairs the subcommittee on economic policy, said there was no real plan on the table yet. The aim of the work should be to provide a practical implementation plan for the RDP. "There has to be clarity on implementation and internal consistency." He said that from the ANC's perspective, it was essential that the party and the alliance's views were taken into consideration. Describing the strategy as "quite a

Continued on Page 2

## Growth

(49) BD 18/4/96

Continued from Page 1

massive task", he said: "The days of discussing broad-based economic and social policy are over. The issue now is clarity about implementation."

Sources said the plan might be finished only in September, but Nedlac sources said they had expected government to put a draft on the table when negotiations on a social accord began this month.

Mbeki in February unveiled an outline of the strategy, mainly focusing on the targets and warning that the plan would entail sacrifices. He said the policy package would be based on the following pillars: the restructuring of industry to enable it to compete; huge investment in education and training; enhanced investment in household and economic infrastructure; and national crime prevention.

# IMF urges caution on depreciation

By Peter Fabricius
Washington Bureau

(49) Star 18/4/96

The International Monetary Fund has cautioned SA not to allow the rand's rapid fall to push up local prices and therefore inflation.

That would lose the benefits of depreciation in making South African exports more competitive internationally, IMF economic counsellor and research department director Michael Mussa said at a press conference in Washington.

It was natural for some depreciation to have occurred in an economy that was suddenly opened after being very closed for a long time. But "the pace of downward adjustment that has occurred during the past few days and weeks exceeds that which one would normally anticipate or wish to see".

The depreciation was "not entirely unwelcome, given the high levels of unemployment". But it was important not to let it affect domestic price levels substantially.

The London Financial Times editorialised yesterday that the rand's fall suggested continuing doubts – "probably unjustified" – about the country's political and economic leadership.

# Mbeki takes over major economic, policy functions

BD 19/4/96 (49)

**Tim Cohen**

CAPE TOWN — Deputy President Thabo Mbeki has taken over major areas of economic and policy planning from the defunct RDP office, providing his office with significant functions.

Mbeki announced yesterday the assignment of functions of the RDP office, giving his office the Central Economic Advisory Service, the Central Statistical Service and the RDP's development planning unit. In addition, Mbeki will take over other policy work of the RDP office and the administration of disability, gender and children's programmes.

All the RDP's presidential lead projects would be allocated to ministries and departments most closely concerned with them, while staff would be redeployed along with projects.

No retrenchments would be necessary and staff would be either "horizontally deployed" or relocated.

The finance department will control donor funds as it has been allocated both the international development co-operation function and oversight of the SA International Development Forum.

The provincial affairs and constitutional development department has been allocated disaster management and control of the municipal infrastructure investment framework, while the public works department will co-ordinate the National Economic Development and Labour Council.

Mbeki's economic adviser Moss Ngoasheng said discussions with the finance ministry had taken place regarding the Central Economic Advisory Service and other bodies.

He said the finance ministry had said it appreciated the need for an overall general economic planning unit, but felt there was a need for macroeconomic planning in the finance department. The finance ministry had indicated it intended strengthening its fiscal development unit to help with macroeconomic planning.

# Conflict a threat to labour market report

BD 22/4/96 (49)

Renee Grawitzky

CONFLICT between the SA Foundation and organised labour on macroeconomic policy could threaten attempts within the labour market commission to find common ground on the drafting of its report expected this year.

National Union of Mineworkers assistant general secretary Gwede Mantashe, at Cosatu's living wage conference in Johannesburg at the weekend, said that debate within the commission reflected the differing views outlined in the SA Foundation "growth for all" document and organised labour's "social equity and job creation" document.

Mantashe said the chapter on macroeconomic policy was proving difficult to write as commissioners tried to reconcile diverse views on achieving set objectives of the eradication of poverty and the elimination of discrimination.

Discussion, he said, reflected general agreement that economic growth which "results in the rapid creation of new employment" was critical to meet such objectives, with stability crucial for growth.

Emerging discussion, he said, reflected general support for sectoral minimums as opposed to a national minimum wage, the need for legislation on a social plan, 5% of company turnover to be spent on training, the subsidising of labour intensive projects, affirmative action legislation which required companies to formulate target-based affirmative action policies as well as provision of assistance for small, micro- and medium-sized enterprises.

In debate on wage determination — which included ensuring increasing employment and productivity, reducing poverty and inequality — consideration was being given to "temporary variations" for small enterprises from bargaining council agreements.

Extension of such agreements, he said, would rely on the labour minister being "sensitive to possible disemployment effects of such extensions". A social accord should be negotiated in the National Economic, Development and Labour Council to cover wages, prices, investment and productivity and address inflation and unemployment, he said.

# SA Foundation's document is a case of selective amnesia

(49)
BD 24/4/96

**JEREMY CRONIN**

WITHIN weeks of each other, the SA Foundation and the trade unions have tabled significant economic documents. Both begin with roughly the same thought: two years have passed since the political breakthrough in our country, now is the time for greater economic decisiveness.

For labour, going forward means carrying the logic of political democratisation into the social and economic domain. The SA Foundation document, Growth For All, has a very different agenda.

I have the impression the sponsors of Growth For All were surprised by the rapid and vehement ANC criticism of their intervention. Reasons for the criticism lie partly in the detail of their document, but also, and more profoundly, in its implicit overarching assumptions. I do not believe that these have yet received sufficient attention.

Growth For All tells us that SA's "political miracle" must now be followed by an "economic miracle". However, as the ensuing chapters make increasingly clear, the economic miracle is a "disappearing act". What it hopes to make disappear is, precisely, a large chunk of the political miracle about which it pretends to be so proud. The first target is government.

The document invokes the usual neo-liberal mantra of radical deregulation, liberalisation, a "brick privatisation programme", major cuts in taxes, and the reduction of government spending as a share of GDP (by about 2% a year).

These measures will strip government of any effective strategic role in the economy.

We have just installed the beginnings of democracy, and already we are being asked to replace elected government with government by an unelected market.

In pushing this agenda, the document ignores overwhelming evidence on the key role the state has played in growth and development over the past century. This has applied particularly to societies (like our own) in which a huge reconstruction effort has been required to break out of wartime ruin, or economic depression, or Third-World backwardness. Examples include the US in the depression years, Western Europe after the war, Japan in its initial period of industrialisation (and again post-1945) and, more recently, China and the Asian Tigers.

The document bases some of its underlying assumptions on a total misrepresentation of these realities.

We are told, for instance, that the "gap between North and South Korea" proves the superiority of the free market over central planning — as if South Korea, particularly in its critical takeoff period, presents us with anything remotely resembling the deregulated, unplanned, liberalised economy and minimalist state recommended for SA.

Growth For All has to admit the last major growth spurt in the SA economy was driven considerably by the public sector. "Back in the 1960s and 1970s SA's overall investment record was quite impressive. Booming investment helped the economy grow at 4-6% a year on average. A great deal of this investment, though, was by the public sector..."

Why the "though"? In the 1960s and 1970s, the document can say, much of this public investment was "inefficient" and wasteful". That is true, the public sector in that period was guided by an apartheid agenda.

The document correctly mentions Mossgas and township construction in "the wrong places". But this is an argument against having an apartheid public sector.

However, having used the inefficiency argument in order, by conflation, to argue against any substantial role for the public sector in development, the document at other moments likes to forget this argument. Instead, it tries to attack the public sector down an entirely different flank. There is no need for major public sector-led infrastructural development in our present situation, it tells us, because SA's "economic infrastructure looks quite sound". Suddenly all those townships are well located.

CRONIN

But the document does not want to dismantle the new state entirely. Business, after all, needs a law-and-order state that can protect property, discipline the unions, and force poor communities to pay for services. (Failure to pay for services is consistently treated under "dealing with crime and violence".)

Grudgingly, the document does also concede a minimal welfare role to the state, provided it confines itself to the ghetto of the absolutely destitute. Just how minimal the state's economic role is intended to be, and just how barbaric are the levels to which Growth For All is prepared to stoop, are reflected in a section on old-age pensions.

The authors are horrified that some of the present recipients of old-age pensions actually live in households "with per capita income close to or above the minimum living level". They refer to a 1993 study in KwaZulu-Natal in which "about 42% of total old-age pensions paid out was received by households with pre-pension per capita incomes of about R168 a month..."

Besides the new democratic government, the other prime target of the document is the trade union movement. The document is quite forthright: "another disadvantage is that the trade union movement is one of the strongest in the world".

The main line of attack against unions is in the document's central proposal of a "two-tier labour market". If the SA Foundation were making recommendations for Malawi it would not even consider a first tier. So there is a backhanded compliment to Cosatu in this proposal. But it seeks to perpetuate the apartheid dual economy in a new, formally deracialised, variant. How many capitalists are going to remain in the first tier when there is a sweatshop second tier down the road?

In the end, this is the direction in which the document hopes to coax us, a sweatshop economy geared to export and not domestic needs. It is a strategic perspective that is unjust and unworkable.

The Asian Tigers achieved their export-led growth in a very different global situation. Today virtually every other Third World society is also being coaxed into this race to the bottom, where each state competes against every other state to make itself, in the words of Michael Valsy, "more attractive to global commerce and the ambulatory well off".

There are many things that should be common cause within the SA debate. Present proportions of public sector consumption (versus investment) spending are too high; major public-sector restructuring must occur; our economy is not sufficiently productive; we need to exert great caution not to fall into a debt trap; we cannot ignore new global realities. But the framework within which one locates one's responses to these challenges is absolutely decisive.

Growth For All tells us: "Only a decade or two ago, SA was a fairly low-crime society." Is this arrogance or innocence? In the heyday of apartheid, whole communities were being dispossessed of land and homes, grand larceny of this kind, and brutal repression, created, among other things, a two-tier labour market.

In the midst of this decades-long crime against humanity it was still possible, perhaps for a privileged minority, to view matters from the security of boardrooms and suburbs and to conclude that SA was "a fairly low-crime society". It is unforgivable to think like this in 1996.

There is, then, another vanishing act in the document or, rather, an appeal to amnesia. It expects the "political miracle" of April 1994 to draw a veil over the economic past, to declare a general amnesty on the complicity that existed between white minority rule and the vast power that still dominates the marketplace. The SA Foundation should not be surprised if the labour caucus at the National Economic, Development and Labour Council and the ANC alliance have a different view.

□ **Cronin is SACP deputy general secretary and a member of the ANC national executive committee.**

# Nedlac enters debate on a growth accord for SA

Greta Steyn BD 25/4/96 (49)

THE National Economic, Development and Labour Council (Nedlac) secretariat is to provide impetus to the debate on a growth accord for SA, with a document highlighting the areas of agreement and disagreement between negotiating partners.

Nedlac executive director Jayendra Naidoo said yesterday submissions on a growth strategy had been received from labour and business, but not yet from government, the community constituency or black business group Nafcoc. He was speaking ahead of today's key executive council meeting, at which a decision is expected to be taken on how to achieve a social accord on a growth strategy for SA.

"A consolidated document is being planned which reflects the areas where the different constituencies are closer and those where there are most disagreement. With a matrix like that, one can start seeing the issues," Naidoo said.

It is expected that today's meeting will nominate a special group to deal with the issue after the original idea of a large "bosberaad" of stakeholders fell through. An important issue to be decided is whether to try to achieve an overall growth accord or to negotiate a series of "mini-accords" on specific issues.

Labour Minister Tito Mboweni has indicated he favours the latter, as the divisions between negotiators are so wide an overall accord seems unlikely.

# State takes over R2,4-bn 'homelands' debt

ARG 25/4/96

THE government had taken over a debt of R2,372 billion from the former governments of Venda, Lebowa and Gazankulu, African National Congress Finance Minister Trevor Manuel said in a written reply to a question submitted by André Fourie of the National Party. - Sapa.

(49)

# SA's 'pathetic' performance threatens democracy, says productivity institute

CT (BR) 25/4/96 (49)

By Roy Cokayne

Pretoria — Poverty in South Africa had risen at 2 percent a year in the past 15 years, said Jan Visser, the executive director of the National Productivity Institute.

"This is not the kind of soil in which any country can hope to grow a flourishing democracy. It is ... sand, and it is fast running out," he said in the institute's annual report released this week.

Political stability largely depended on the prosperity of the people, but the average South African was not prospering, which spelled danger.

"The formal sector of the economy now employs the same number of people as in 1980 and the number of black people employed in our factories is the same as it was in 1975," he said.

"The gross domestic production per capita decreased at ... 2 percent per annum since 1980. Since the production per capita in a country equals the consumption per capita, this means that poverty increased at a rate of 2 percent per year over the past 15 years."

He said the problem could only be solved through economic growth, but economists agreed that the balance of payments situation was preventing South Africa's economy from growing.

"Although we are fortunate at present that the positive capital account of the balance of payments is more than offsetting the current-account deficit, we must be realistic and accept that the only long-term solution is to compete against the rest of the world.

"The current account is the avenue to be used for continued growth. (Only) if every organisation increases its productivity will exporters be able to compete internationally," he said.

Poverty or the lack of prosperity was not only limited to the unemployed, but also hit those with work.

Nominal earnings for an employee in the private economy increased at a rate of 15,4 percent a year from 1981 to 1994, equivalent to a real earnings rise of 1 percent a year.

He attributed this "pathetic performance" to the fact that employers and employees did not pursue the same objectives.

He said if employers and employees respected each other's objectives, it logically followed that they would help each other to achieve their objectives.

# IMF, Bundesbank 'back SA approach'

(49) BD 25/4/96

Simon Barber

WASHINGTON — Government was drawing support from the IMF and the Bundesbank for its gradualist approach to exchange controls, Finance Minister Trevor Manuel said earlier this week.

Manuel, on the last day of a tour of US and UK banking institutions, said he would not put a value on where the rand should settle because it would only encourage speculators who had grown rich beggaring other currencies.

The rand, meanwhile, ended its two-day attempt at a rally, slipping to a R4,2625 close last night from Tuesday's R4,2350. Dealers said the market was growing increasingly concerned about prospects of next week's strike. They said, however, that the unit seemed to have found a trading range.

Manuel met officials from the US, Federal Reserve, IMF and World Bank yesterday before heading home.

He said: "We have been able to draw on ... the fact that the IMF is not putting pressure on SA ... and has not urged a big-bang approach but has been understanding of an approach of gradualism". He said Bundesbank president Hans Tietmeyer took the same view.

Manuel repeated that the rand —

Continued on Page 2

# IMF

(49)

Continued from Page 1

BD 25/4/96

which has fallen 17% against the dollar since February — was marginally undervalued, but would not put a value on where it should settle.

"It's not a fight worth fighting," he said. "You don't want to open yourself to all kinds of arbitrage which says SA does not have the reserves to engage currency speculators who always have deeper pockets." The reserves of countries had been transferred into the pockets of individuals in this way.

He hinted that he was considering new foreign borrowings and reviewing government's debt management strategy. "We are taking a fresh look at currency and maturities within our debt portfolio, bringing together our domestic and foreign exchange exposures, evaluating risk differently."

He said everyone was happy with government's commitment to fiscal discipline, noting that last year's deficit came in at 5,5%, against the 5,8% projected in the Budget.

The US state department, however, said in its recent report on major US trading partners, that SA's budget deficit, at nearly double the "global norm" of 3% was "still unsustainable, and if maintained over the long term, could result in extremely high levels of government debt".

Manuel and predecessor Chris Liebenberg sought to play down the significance of their tour. It had been planned six weeks ago and was not to be confused with the "roadshow" scheduled for June.

Liebenberg said the main purpose of the trip was to enable him to introduce Manuel to his contacts in the financial community.

# Govt must declare firm policy to bring rand back to health

**SIMON BARBER in Washington** (49) BD 30/4/96

THE new SA celebrated its second anniversary on Saturday with the rand having reached previously uncharted lows against the dollar on Friday.

The dictum of the IMF in its latest semi-annual World Economic Outlook, released 10 days earlier, seemed apt: "When doubt has arisen about the resolve of policy-makers to tackle problems, markets have demonstrated the ability to force the necessary policy changes at a substantial cost.

"Market discipline on economic policies, in contrast to self-discipline, often involves excessive volatility in asset prices, with seriously adverse consequences for activity and employment."

The market is not a monolith, as Finance Minister Trevor Manuel correctly, if a little too testily, noted. Its participants have diverse motives for buying and selling, and respond differently to different stimuli. With the rand in the R4,50 to the dollar range, some punters predictably see bargains in SA bonds.

New York traders are also reporting signs of corporates starting to show an interest in buying rands to invest in SA joint ventures. SA labour has suddenly become a lot cheaper and SA exports look — for the time being at any rate — to be newly competitive.

As for the short sellers, who have been making hay on the currency's decline, Reserve Bank governor Chris Stals evidently hoped that Friday's interest rate hike would make their *schadenfreude* — joy at others' grief — a more expensive and less tempting pleasure. To short a currency you first have to borrow the stuff. Besides, SA's foreign reserves, at a paltry $3bn, cannot be that tempting a target.

If there is anyone out there deliberately attacking the rand to send government a message, they have surely made their point. Late on Friday, government faxed its embassies the ANC's statement declaring "optimism" that Cosatu's mass action scheduled for today had become "unnecessary", and that labour, industry and government intended as a "matter or urgency" to try to develop a unified platform. The cover note said, in effect: get the word out before the markets reopen after the weekend.

Lots of reasons are given for the rand's plunge, but as trite as it is to say so, it all boils down to confidence. Speculators — always the villain of first resort in such episodes — may be making things worse, but they are only exploiting sentiment that is already there.

What has happened, essentially, is that the new government has used up the slack it was granted because of the remarkable way in which it handled the transition. Now, it seems, investors want SA's people to move beyond congratulating themselves about what happened two years ago and bickering about what to do next.

Everyone has a pretty good idea of what the problems are, and it does not take a genius to foresee the danger of continuing to lollygag around key decisions concerning the growth and competitiveness of the economy when nearly half the black working-age population under 30 is chronically unemployed.

That is not a sustainable state of affairs and unless it is confronted, and new wealth starts being generated and spread around in the form of jobs and improved living standards, political and social forces will be unleashed that will send capital screaming for the exits — with or without exchange controls.

Nobody is asking for a perfect solution to be served up whole, entire and perfect on a platter. All that is needed is commitment to a credible programme including a schedule, by all means phased and contingent, for the elimination of exchange controls that shows government is intent on setting up an environment in which investors, foreign and resident, will feel happy holding rands.

A solid statement along those lines backed by all players could quickly stabilise the rand at four to the dollar, a veteran New York trader predicted last week.

The fact that Manuel was unable to offer anything approaching such a statement in his meeting with bankers and investors here last week undoubtedly took a toll. Readouts from his talks at the US treasury were not so positive, either.

Hopefully it will be a different story if and when he returns in June for what he promises will be the real "roadshow". This was just a "familiarisation" trip with his predecessor, Chris Liebenberg, in tow — "holding his hand" as ambassador Franklin Sonn joked.

Actually, it was not very funny. The last thing SA needed last week was a finance minister perceived as needing to have his hand held.

More broadly, government needs to pay attention to what might be called the "flakiness factor". It is probably unfair to implicate directly Foreign Minister Alfred Nzo's jaunt to Libya in the destabilisation of the SA currency.

Nonetheless, it is one of a number of developments that have raised questions about government's adroitness, and which have added to unease about where SA is headed. This is not a good time to be poking a finger in the eye of the US or its key allies. It does not add to SA's credibility; indeed it feeds prejudices — the same prejudices that are at play when markets get into a tizzy over President Nelson Mandela's health.

Talking of poking the US eye, what was this about rebidding the contract Boeing signed to deliver four 777s and two new 747s to SAA? Boeing spokesman Jerry Johnson called a Friday report "speculative", pointing out several factual errors, but the company was clearly peeved all the same.

The US state department, unable to get the story promptly denied, was also unhappy as was the office of the US Trade Representative, which had already specifically criticised SA's trade and industry department for the less than straightforward way it sought to squeeze extra offsets out of Boeing after the tender was closed.

Officials wondered, in exasperation, whether government was using the Boeing deal as leverage in talks over that ever running sore, the Armscor indictment.

Pratt & Witney, which is seeking the contract to provide engines for SAA's 777s, has been wondering the same thing, and it is fair to say that this has been souring Washington's thoughts about Pretoria. Not that they had not already been soured by SA's threats to disband the US-SA binational commission if Armscor was not granted sovereign immunity from prosecution for the extensive crimes with which it is charged.

At all events, were SA to rebid the Boeing contract, it would be headline news here and would have a serious effect on US attitudes towards SA. While SA might score a few points with the French, whose Airbus Industrie lost out to Boeing, a deal is a deal. Although saying it sounds horribly Piet Koornhof-ish, SA's credibility is on the line.

Why should an American investor want to turn his dollars into rands to invest in SA if its government acts in a way that suggests its word is not worth the paper it is written on?

Finally, a grim reality needs to be faced. With memories of April 1994 receding, it is evident that foreign investors have a far lower panic threshold for keeping their money in rands than they did for holding Mexican pesos, even though, beneath a veneer of Harvard-trained technocrats, the Mexican government was and is one of the most corrupt and gangsterish on the planet.

It took two assassinations, an insurgency and imminent default to wake the punters about Mexico's fundamentals. Nothing faintly approaching that has happened in SA, yet the rand is taking a bigger beating than it did after PW Botha's Rubicon speech.

Investors have been more skittish since Mexico, of course, but is there prejudice involved? Certainly. Unfortunately, crying foul will not make things any better.

# Big business must accept our future rests on negotiation

(49) BD 30/3/96

**STEVEN FRIEDMAN**

DOES business leadership want to negotiate the future or doesn't it? And if it does not, what will it do instead? The questions are raised by the SA Foundation's Growth For All document.

It has been billed as a statement by our biggest 50 companies: since no one has publicly denied this, we must assume that it is. And, for better or worse, the document does read like a big business charter: critics note that it is silent on small business promotion.

Its centrepiece is a proposal which lambasts our labour relations model and suggests a two-tier system which would weaken union power. Its merits are less important than the fact that it rejects the Labour Relations Act and the thinking behind it.

What is wrong with that? Nothing — businesses are obviously entitled to criticise laws they dislike.

However, the law our biggest firms are said to reject was negotiated by Business SA on behalf of, among others, those rejecting it.

One explanation, angrily advanced by Labour Minister Tito Mboweni, is that business is reneging on the deal which produced the Act. Another is that Business SA negotiators were not bargaining on behalf of our biggest corporations.

Whichever explanation you buy, the implication is that an influential section of business does not pin its faith on negotiation with labour and government over labour law.

This seems to be confirmed by the fact that Growth for All was not initially tabled as a negotiating document at the National Economic, Development and Labour Council (Nedlac), the formal forum for negotiations between business, labour and government. If business leaders who back the SA Foundation document endorsed negotiation, they would presumably have told their Nedlac representatives to argue that the Act had to be renegotiated.

Insiders suggest the fact that they did not was no accident. They say key business figures are disenchanted with Nedlac, which they see as a vehicle for labour to impose its will. They would, these sources say, rather rely on persuading government to ignore labour if it gets in the way of growth.

This is, to say the least, an important development.

It has become a cliche to insist that our prospects for political stability and economic growth depend on negotiated compromises — not only between politicians, but also between powerful interests, none more important than business and labour.

Negotiated compromise means that neither side can get much of what it wants unless it is prepared to give the other something of what it wants.

The outcome will not please purists on the economic right or left, but it will work, so the argument goes, as it will ensure stability, without which growth is impossible.

Growth for All suggests a section of business does not see our future that way, that it believes that only a purist solution, not negotiation at Nedlac, can achieve growth.

What is its alternative to negotiation? Reaction to Growth for All hardly suggests direct appeals to the government are recipes for success. This will not surprise anyone acquainted with our politics.

Did the document's authors expect that a party which won majority support as the vehicle of black liberation, the most organised ally of which is the union movement, would even agree to discuss a call by white business leaders to bypass the unions?

The point is not simply, as some of the document's backers apparently acknowledge, that its release could have been handled far better.

It is that the thinking behind it misreads our politics. A strategy of the sort which Growth for All proposes could be implemented only by a government committed to taking on the unions and strong enough to do so.

Anyone who believes our current government can be turned into a cross between Margaret Thatcher and Chiang Kai-shek simply because it is prepared to sell off some state assets needs a crash course in political savvy.

Nor is there much evidence of local business influence on the ANC leadership — there is wide agreement that the major influence on its economic shift has been foreign business, which carries no apartheid baggage.

It is one thing to draft documents urging a weakening of union influence — quite another to show how this is to be achieved. And, since all the evidence suggests that the unions are not going away, there seems to be no alternative but for business to negotiate with them.

It is possible to see Growth for All not as an attempt to bypass negotiation but as a means of strengthening business's bargaining position. It is a standard bargaining tactic to ask for far more than you expect in the hope of placing the other side on the defensive.

However, it is hard to see how business can strengthen its negotiating position by creating the impression that its negotiators do not speak for those they are meant to represent. If Growth for All is to be negotiated, with whom and where? Not with Business SA, for it is not its document. Is Nedlac to be suspended while the government and labour negotiate with the SA Foundation, which is not a negotiating body? And if Nedlac is to continue, how do the other parties know that what is negotiated there will be accepted by the corporations that belong to the foundation?

An important point lies behind this. Negotiated compromise sounds nice, but it demands adjustments from those who rely on it. And one thing it may demand from business is a different view of employer organisation.

With some exceptions, big business has not taken employer organisation seriously in the past: the idea that corporations should surrender decision-making to an employer association does not sit well with chief executives who feel able to look after themselves.

In the past, that might have worked because the business climate was not shaped by negotiated national policy.

It cannot work if policy is to be negotiated because negotiators have to speak for those they are meant to represent — policy cannot be negotiated separately with each chief executive. If we are to proceed through negotiation, business will need to give up some of the rugged individualism it prizes and accept the need to negotiate as an organised group.

Business is not the only interest finding adapting to negotiated compromise difficult.

One recent example is Trade and Industry Minister Trevor Manuel's reluctance to negotiate competition legislation at Nedlac. And, as the ANC strengthens its hold on government, we may see more ministers trying to show they can deliver by tabling laws which affect business without negotiating them.

Nor do we yet know how eager labour will be to ensure that union members abide by the Act it negotiated at Nedlac.

More generally, we may still be in the phase in which all parties believe that negotiation is the art of getting the other guys to agree to your agenda.

Tough as negotiated compromise might be, there is no evidence yet of an alternative.

Neither a large parliamentary majority, a membership of more than a million workers, nor ownership of most assets is likely to prove a strong enough weapon to enable the owner to shape policy alone.

Whatever the graphs or the latest studies say, the only economic policies likely to secure our future are those bargained by the major interests in our society.

The sooner all parties realise this, the sooner will progress begin.

□ **Friedman is director of the Centre for Policy Studies.**

# Hot-tipped Hogan turns down Marcus's chair

M+G 3-9/5/96 (49)

**Mungo Soggot**

BARBARA HOGAN, the African National Congress MP hotly tipped to succeed Gill Marcus as chairman of the influential Joint Standing Committee on Finance, this week stepped down as a candidate for the chair.

Hogan, who has been one of the committee's most active members, said she had opted out of the running as she preferred to work quietly from the back benches, where she would be free from the administrative work that comes with the job.

However, others close to Hogan said she did not want to become involved in a political battle over the post — senior ANC officials are understood to be keen to have a black successor to Marcus, who was made deputy finance minister in last month's Cabinet reshuffle. Hogan refused to comment on this.

ANC MP Zingile Dingani, who was Marcus's deputy, is likely to be the new chairman, another MP said. ANC MP Rob Davies would be elected deputy to Dingani.

The ANC has recently changed the rules for electing chairs of parliamentary committees so that the party as a whole, and not the committees themselves, now have a greater say.

Under Marcus, the finance committee carved itself an important role as a check against government profligacy.

As well as acting as a check against the executive, parliamentary committees are effectively specialists for political parties on particular areas of legislation. They hold hearings on Bills, preparing them for Parliament. Most are dominated by the ANC.

Dingani joined the ANC underground structures in 1982. He was national treasurer of the National Education Union, before it became part of the South African Council of Trade Unions.

Dingani said this week he trained as a teacher at the Cape College of Education in 1983 to 1984, and took a part-time degree in English and psychology at Vista University, where he also studied business economics and commercial law.

Earlier this year he took a course in economic policy formulation with the New School for Social Research in New York, and is currently completing a post-graduate diploma in economic principles at London University.

He was elected to Parliament as a Free State MP.

# SA has a lot to learn from the economies of its neighbours in Africa, says UN development head

Star 7/6/96 (49)

By Adam Cooke

When a little grey-looking man in a pale blue suit says one of life's greatest joys is listening to the music of 20th century Russian dissident Shostakovitch, then one's interest pricks up.

Listening to Shostakovitch, one of Russia's greatest classical composers, who spent his life writing music that tested the very edge of Stalin's tolerance, is harrowing to say the least: discordant free-form modernism mixes with melodious reveres into Russian romanticism to form what is today recognised as truly revolutionary music.

It is this sort of paradox, these clashing contradictions that strike 51-year-old David Whaley, head of the United Nations Development Programme (UNDP) in South Africa.

After nearly a year in the country, Whaley pinpoints, with meticulous powers of observation backed by an academic past in economic history, some of South Africa's key challenges.

He talks of restructuring and refocusing the public service: "public works is going from being a public buildings department to a major player in the development process ... essentially it is becoming a development agency and adopting labour intensive techniques"; and of novel ways of fighting crime – "one has to apply community development techniques very cautiously as an antidote to violence – we need to assist communities to focus on shared problems, which is vital to rebuilding relations in shattered communities".

But these are not quick-fix solutions rattled off, they are thought-provoking and considered, but most of all they are spurred on by what he sees as the extraordinary openness of South African society.

"I have never experienced a place where so many people are involved in debate about the future of the country and the new constitution; where so many people go to vote and so many sing the national anthem so enthusiastically."

It is another paradox of South Africa's changing face that today the UNDP sits in Pretoria, sharing its experience in development gathered from countries that once labelled South Africa a pariah. And one can't help but feel privileged to have the likes of this eloquent and inquisitive man at its helm.

His position here, and that of the organisation he represents, is, on the surface, not very controversial. But its task is made difficult by a long history of disinformation, with the state-controlled SABC at the forefront.

It started when the UN was lambasted by South African authorities for engineering international sanctions.

Remember the likes of presenter Cliff Saunders' endless reports showing graphically the plight and torment caused by sanctions?

Sanctions provided Whaley with an avenue for his frustrated imagination while a teenager.

He recalls when his school in Worcester, England, returned unopened the boxes of apples they received from a school in Worcester, South Africa.

The tradition of gift swopping and building alliances between the two schools, based purely on their common name, stretched back many years. But this occasion in 1961 was one of the turning points for a young man that began a journey into Africa lasting three decades.

Today he speaks of political reform in Benin, of his years in Burkino Faso, Gabon, Algeria, Togo, Madagascar and, most recently, in Kenya.

Having lived through bloody and bloodless revolutions and seen this continent which, in his words, was "deserted by the international community at a time when it needed support most", he was still stunned by what he saw in our country.

Driving down from Kenya with his Dutch-born wife Marretje Netelenbos and his three sons, he was devastated by South Africa . "I had read a lot about this country, but I was deeply and profoundly shocked by what I saw," he said.

It was the beautiful, neat little towns that rocked him – their friendly country folk and then, tucked haphazardly behind a hill, a sprawling township totally devoid of economic activity.

Observation ... David Whaley has spent three decades in Africa

The lack of economic activity in the rural areas is a direct offshoot of apartheid planning, but Whaley also sees it as just one of the many lessons South Africa needs to learn from Africa.

In his years in Africa, he has seen the spirit of creative entrepreneurs everywhere – "wherever people have been given access to fertile land in Africa, they have proved very successful".

Whaley's most striking insights come through his comparisons with our African neighbours, comparisons that could lead South Africans to a new perspective on their continent.

Are we an island off the coast of Africa, or are we rooted to the toil and joy that is this continent?

While he found South Africa has an enormous amount to offer in terms of trade, markets and technologies, it has a lot to learn from Africa when it comes to the issue of addressing the needs of the majority of the population.

He points to a recent example while on the farm of Kenyan President Daniel arap Moi.

Moi was excited, having just received a fax from the South African Department of Agriculture, at the prospect of finally gaining access to the technologies available to South African farmers.

"But arguably the best tea and coffee in the world is produced in Kenya. And it is not grown on big estates with high technology, but by peasants on tiny holdings in amongst a range of subsistence crops on no more than a hectare of land. That is practical – high productivity and high value."

His vast experience and unquestionable commitment to Africa enable him to portray, in the humblest of ways, the fact that development does not always equal large scale schemes backed by huge funding that deliver instant gratification. Rather he looks also to developing peoples' economic productivity at a local level.

But there is more. There are vital lessons to be learnt, even from the likes of one of the world's poorest "crisis countries", Burkino Faso:

"You (South Africans) have an extraordinary lack of attention to the needs of customers and in certain services the activities and procedures should look to some of West Africa's poorest nations and learn."

South Africans know poor service like they know drought, but have simply come to live with it. But if viewed as the tightrope on which our economy teeters, service becomes pivotal.

This, Whaley says, could be the Achilles heel of the South African economy: "Even when you are internationally competitive again in terms of labour policies, productivity and technologies, if your services are not following and not enabling your people to compete, it will fail."

With this in mind Whaley has formed his own, one-person consumer watchdog, to counter what he calls a "culture of lack of complaint".

Between dealing with South Africa's new bureaucrats, reading about anything from drug syndicates to political philosophy and, of course, listening to Shostakovich, Whaley has time to drop another gem.

"This region, which for so long was the region of great despair, is now the one of greatest hope"

# SA govts 'must align for effective growth'

Robyn Chalmers BD 10/5/96 (49)

NATIONAL, provincial and local governments have to become more closely aligned if the growth and development strategy is going to be effective, says former RDP office deputy director-general Bernie Fanaroff.

Fanaroff was speaking at this week's launch of a road show for the local economic development government policy — a wide-ranging scheme to accelerate growth and create jobs in poorer communities.

He dismissed reports that the RDP had been abandoned, saying it remained the centrepiece of government policies. However, new activities which had the potential to create new jobs would be focused on.

These included services created through the installation of infrastructure such as house wiring and telecommunication services along with small scale manufacturing likely to feed through from low-cost housing projects. Downstream production from major industrial clusters, such as steel and petrochemicals and tourism and associated craft industries were other areas of focus.

Fanaroff said local authorities in most cases were only now starting the process of moving expenditure in their budgets to the areas of need and investment, a process which had to be enhanced and supported by communities and business.

"So what we need is an alignment of the planning and efforts of national, provincial and local governments. If one of these goes off in a different direction, the synergies are weakened or lost," he said.

Fanaroff said government had to rethink incentives offered to boost small and medium enterprises, as incentives in the past did not create sustainable development. A new, more flexible, framework was required, with local and provincial authorities expected to have the responsibility of building up their incentive measures.

Fanaroff said employment growth would come from two areas — the expansion of the formal sector and from increasing the entrepreneurial opportunities available for small enterprises and the informal sector.

# Economists want IMF loan and higher rates

(49) C(BR) 10/5/96

By Christo Volschenk

Cape Town — As money market rates jumped and the spectre of another Bank-rate hike loomed ever larger, economists called on the government yesterday to introduce a package of policy measures "to regain the initiative and stabilise the financial markets".

But the Reserve Bank and the finance department adopted a wait-and-see attitude warning against overhasty decisions

Economists polled by Business Report expected an imminent hike in the Bank rate, but said it should be part of a package which must include a short-term loan from the IMF.

Late yesterday, Estian Calitz, the retiring director-general of finance, confirmed that the department was "not considering to go to the IMF for a loan at this time", while Chris de Swardt, the senior vice-president of the Reserve Bank, said "it would be wrong to assume the Bank rate will automatically rise because the money-market rates have jumped".

Nick Barnardt, an economist at BoE Natwest, said an increase of 1 percentage point would not be enough "An increase of 1,5 to two percentage points, combined with a range of other measures, would be needed to stabilise the markets," he said.

Barnardt and Johan Rossouw, the chief economist of Huysamer Stals, said the time was ripe to approach the IMF for a loan

"A loan of R4 billion to R5 billion may do the job," Barnardt said

He also said government should announce that the removal of exchange control regulations had been suspended until next year. "The reserves are just too low to proceed with the removal," Barnardt said.

Until last month's reserve figures were announced on Wednesday, he was in favour of the quick removal of the controls.

Market turmoil hastened NP exit

# Economic policy 'will not change'

(49)

BD 10/5/96

Wyndham Hartley

CAPE TOWN — President Nelson Mandela and the ANC moved swiftly yesterday to reassure the world that government policy, particularly on the economy, would remain unchanged following the withdrawal of the NP from the government of national unity.

The NP's withdrawal — rumours of which threw financial markets into turmoil on Wednesday — raised the question of when Inkatha leader Mangosuthu Buthelezi would follow suit, leaving the ANC to govern alone until the next general election in 1999.

Mandela, at a news conference about three hours after NP leader and Deputy President FW de Klerk had told him of the NP's decision, said government's policies were based on the needs of the people and would not change. Flanked by Finance Minister Trevor Manuel and Deputy President Thabo Mbeki, he was clearly referring to economic policy and the fiscal discipline which the NP has claimed credit for in the unity government.

He thanked De Klerk for his contribution to the transition to democracy, saying he would have preferred to have worked with the NP until 1999. De Klerk's contribution to the transition was too great to say "good riddance".

De Klerk said the NP would withdraw from the government at the end of June. The decision was based on a desire to serve the national interest better.

The decision came amid rumours that a leadership challenge forced De Klerk's hand. He strenuously denied that there was division in the party over the decision.

The decision to leave government, which was to have been taken at a meeting of the party's federal council next Tuesday, was apparently hastened by the hammering which the markets took as a result of speculation on Wednesday. Delay could have meant further damage and the decision to leave was taken by the party's federal executive and ratified by a caucus meeting yesterday morning.

De Klerk and Mandela said the decision was a positive step in the growth of democracy in SA. De Klerk said the development of a strong and vigilant opposition was the only way to preserve "genuine" multiparty democracy in SA. Because the new constitution, adopted on Wednesday, did not include provision for a unity government or any other form of joint decision making, "we have decided that the time has come for us to play our full role as the main opposition party". He said the time had come for the ANC to take responsibility for governing the country.

Continued on Page 2

# SA scrapes by in US economics test

BD 15/5/96 (49)

**Simon Barber**

WASHINGTON — Economic freedom in SA was tarnished by heavy state involvement in key industrial sectors, a cosy relationship between big business and politicians and insider trading, a report released yesterday said.

The report, compiled by respected human rights group Freedom House, bases its criteria on the conditions under which a Bill Gates-like entrepreneur would be able to build a Microsoft from scratch without having to pay bribes, have friends in high places or toe a party political line.

SA scraped though for a rating of "free" along with most industrialised nations, while a number of the East Asian tigers, including Singapore, Malaysia and South Korea, did not.

Report editor Richard Messick said that in South Korea Microsoft would not have flourished on its own, but only as a subset of an industrial conglomerate like Hyundai. In Singapore, Gates' success would have been contingent on not offending the government.

Freedom House scored 82 countries on the extent to which they afforded six freedoms: to own property, earn a living, operate a business, invest one's earnings, trade internationally and participate in a market economy.

SA scored 13 out of 16, placing it on a par with Chile, Italy and Japan at the bottom end of the "free category". It was the only African country to make the cut.

It lost marks in the "freedom to operate a business" category because "control of the country's larger industries by a few interlocking conglomerates severely limits business opportunity. Newcomers are at a disadvantage. Monopolistic and unfair business practices by the leading conglomerates are rarely investigated."

Points were also deducted in the "freedom to invest one's earnings" category. "Heavy state involvement in a number of key industrial sectors has long limited private investment opportunities. Insider trading and other manipulation are considered common and can hurt small investors."

Exchange controls led to loss of points under the heading of "freedom to trade internationally".

Although it did not effect SA's final score, the authors were uneasy with the extent to which "the few conglomerates that dominate SA's economic landscape have close ties to top politicians. Many large companies have hired former officials of the ruling ANC to establish closer ties with the new government". Messick said Freedom House had a "bias" against "crony capitalism".

# Stals's silence raises serious questions about SA economy

BD 21/5/96 (49)

GRETA STEYN

THE Standard Bank's decision to lead the banking pack in restoring margins is compelling evidence of SA's faith in free markets. Finance Minister Trevor Manuel might have made some pretty unpalatable noises about the markets, but there can be no doubt that financial prices are extraordinarily free.

Who needs an independent Reserve Bank when one has bankers eager to protect profit margins?

One cannot blame the banks for acting; in fact they would have contradicted their very raison d'être, if they had failed to raise interest rates while they were able to do so. Criticising anyone for acting with a profit motive in mind is downright silly. Their actions, however, affect the entire economy.

The national interest is not banks' responsibility. Banks often invoke the national interest in their arguments to support their actions. Yet that is an understandable ploy, an obvious smoke screen — about as convincing as a beer manufacturer claiming that the national interest will be protected by a price increase.

An increase in interest rates is usually accompanied by a statement from the Bank explaining the macroeconomic reasoning behind the move. The absence of such a statement last week was hugely significant. It implies that the Bank does not necessarily agree that the move was unavoidable. It suggests that interest rates rose, not because of the economy's needs, but because of banks' needs.

If that is true, then it raises questions about the kind of economic system we have. Do we really want a system that favours financial services at the expense of the manufacturing industry?

Many industries have to live with intervention — for example, clothing manufacturers facing high import tariffs, or the oil industry facing government control of their margins. Yet banks, it seems, get off scot-free.

Stals's failure to write a statement arguing the case for higher interest rates is a serious omission.

Is it a sign that he fears the political fallout and wants to "lay the blame" very clearly on the banks? Does he think the market speaks more eloquently than he does?

Does Stals not believe that there is a good macroeconomic argument to be made in favour of raising interest rates, other than the vaguely supportive comments he made last week?

If we are "leaving it to the markets", we need to know how it all fits together, what it means and why it is all happening. To simply "blame" the markets is just not good enough.

Should the Bank have sanctioned a rise in rates? It is by no means clear that the two percentage points rise in interest rates will save the rand. There are countless examples (England, Sweden and Turkey) of how excessive interest rate movements did not succeed in beating off a currency attack.

The rise in interest rates comes at a time when there are many signs that the economy is cooling down. But a slowdown in economic growth is obviously no argument against an increase in interest rates.

As Stals said: "Interest rates force the economy to grow at the rate it can afford." The point he makes is the key issue in the debate on whether interest rates should have risen. The kind of shock the SA economy has suffered as a result of the rand's devaluation has left it literally poorer; the country has to cut its coat according to its cloth and interest rates are the scissors.

Capital has fled out of SA and without it we have to face up to the fact that domestic savings are woefully inadequate.

STALS

Printing money to make up for our failure to save can create the illusion of maintaining economic growth. It is a bit like waking up with a hangover and reaching for a beer. It feels good, it brings back the pleasures of the night before, but eventually that hangover will have to be faced.

That metaphor undoubtedly applies to the first interest rates increase. Yet one could argue that last week's move needs a different metaphor. It is like going for a long run, while suffering from the world's worst hangover. It might just push you from feeling sick to a near collapse. In theory it might get rid of the hangover, but at what cost?

Arguing the case for higher interest rates is obviously difficult, but not something that the Bank should try to shirk. If we are in an economic mess, it must be explained.

If we are not, and banks' shareholders are simply being allowed to sleep peacefully while those of manufacturers worry, there is something seriously wrong. The financial sector is running ahead of the rest of the economy.

Stals's mantra of "financial stability" became a reality (at least for a little while).

We allowed the stable financial situation and relatively low inflation to fool us into thinking that the economy is sound, poised to become an emerging market success story

The rest of the economy has not yet caught up with the financial sector, and the preoccupation with lifting of exchange controls ignored this. The list of major problems is long: SA has made no progress towards privatisation; neither has it moved towards a more effective competition policy.

There has been some progress on the industrial policy front, but not enough. Company tax rates are too high. Delivery of the RDP has been slow. Government needs to get rid of 100 000 public servants to pay the others better. So far we have seen the pay increases, but not the mass exodus from the public service.

Financial liberalisation should form one part of an overall economic strategy. The major differences between labour, business and government on formulating such a strategy suggests it is still some way off. Financial liberalisation cannot be rushed if the rest of the economic strategy is not ticking along nicely. The proper sequencing of economic liberalisation is recognised as necessary by even the most ardent of free marketeers.

With hindsight, SA should perhaps not have got rid of the financial rand. Or, having opened itself up to the vagaries of the markets, it should have made sure its economic policies could stand international scrutiny. It should have acted swiftly and in small steps to continue the process of lifting capital controls.

Stals's "blaming" the markets is shorthand for pointing out that the SA economy lacks direction, has no strategy to speak of, and is being bogged down by fights between vested interests.

He is in an invidious position, but cannot just wash his hands of an interest rate increase. He at least has to tell us why we are in the mess we are in, even if he alone does not control how we get out.

# ANC denies rejecting government's strategy for growth

CT (BK) 23/5/96 (49)

By Christo Volschenk

Cape Town — The ANC denied yesterday that its national executive committee last week rejected the latest version of the government's strategy for growth and development.

The strategy is being written by a special sub-committee of cabinet, led by Deputy President Thabo Mbeki. The sub-committee was constituted by President Nelson Mandela last August.

Reports yesterday said the national executive had rejected the latest version of the strategy as too "Thatcherite", meaning it pandered too much to the markets.

The report also alleged there were differences of opinion over fundamental policy issues between Tito Mboweni, the labour minister, and Pallo Jordan, the environment and tourism minister, on the one side, and Alec Erwin, the trade and industry minister and Trevor Manuel, the finance minister, on the other.

A spokesman for the ANC said the growth strategy was not discussed at the last meeting of the national executive committee.

"The executive committee did express its confidence in the government's economic policies, and maintained that the only sustainable way forward lies in the effective implementation of the growth and development path informed by the RDP vision," the spokesman said.

> *'Suggestions that there were differences over the strategy are devoid of any truth'*

"At an earlier meeting of the national working committee, the growth strategy was discussed.

"The committee accepted the basic tenets of the strategy, but agreed — as the government itself had indicated — that it required further elaboration."

The spokesman added: "The suggestion in the report that there were major differences between members of the national executive over the strategy is a fabrication and devoid of any truth."

> *'The committee agreed — as the government itself had indicated — that it required elaboration'*

Yesterday Mboweni, who is chairman of the economic affairs sub-committee of the national executive, declined to comment.

During the snap debate in parliament last week on the recent drop in the value of the rand, Manuel said the growth strategy would be published "in the near future".

A few weeks ago, a spokesman for the National Economic Development and Labour Council (Nedlac) said the strategy would be submitted to Nedlac, where it will be debated.

Labour and business have already submitted strategies to the council.

A growth strategy for the country that takes all the constituencies in Nedlac into account will then be formulated.

# Students call for mass action on campuses

Kevin O'Grady BD 29/5/96 (24)

THE SA Students' Congress (Sasco) has called a day of mass action on July 31 at campuses countrywide to press government into extending the national commission on higher education's deadline by six months.

Sasco secretary-general Oupa Bodibe said in Johannesburg yesterday there was wide agreement at a recent consultative conference held by the commission that its deadline should be extended to December, but this had not been done.

Labour, business and student representatives at the conference protested that the commission, which is to make recommendations on revamping SA's higher education system by July, had not consulted widely enough in drawing up a recently released discussion document.

"Our mass action will also aim to highlight the crisis in higher education and force administrations to expedite the process of transformation," Bodibe said.

He criticised "very small" student organisations — such as Azasco and Paso which instigated violent protests at Technikon Pretoria last week — for trying to turn the crisis on campuses into "racial war".

Sasco also called on the ANC to "come up with a clear economic policy" as the financial crisis on campuses was linked to a broader economic crisis.

# NP slams 'tragic economic circus'

BD 29/5/96 (49)

Wyndham Hartley

CAPE TOWN — The NP has lashed out at President Nelson Mandela and Cosatu for what it describes as a "tragic economic circus" which is seriously undermining investor confidence.

NP finance spokesman Theo Alant yesterday referred to the contradiction between Cosatu's challenge to commercial banks and Mandela's declaration that privatisation was fundamental ANC policy.

He said Cosatu secretary-general Sam Shilowa's attack on commercial banks for increasing interest rates, in which he threatened to "nationalise monetary policy", was a claim for state intervention in the banking sector — which the NP opposed.

Alant said the NP was shocked that Shilowa should "threaten a boycott against Old Mutual" simply because it was a member of the SA Foundation which expressed views with which Cosatu disagreed.

"The NP believes ... Cosatu's bullyboy tactics are at loggerheads with the democratic principles in the constitution."

Alant said his party was convinced "the economic circus staged by the ANC and its alliance partners" was detrimental to economic growth, job creation and the ability to address socioeconomic backlogs.

"Mr Mandela's "capers" on these issues only worsens the situation," he said.

He charged that Mandela had said in Germany last week that "privatisation was policy" and that the ANC would convince Cosatu to change its view — while this week Shilowa flatly rejected privatisation.

The NP also charged that Mandela was "undermining his stature as a statesman" when he accused the NP of being "racist in its support" for the death penalty. Party spokesman Johan Steenkamp said vast numbers of South Africans wanted the death penalty. He said most victims of murder and rape were black and therefore greater penalties for these crimes would benefit blacks in particular.

*The weakened rand has made costs 'exceptionally high'*

# Does the state's overseas borrowing make financial sense?

(49) CJ (BR) 29/5/96

By Edward Osborn

Johannesburg — There is as much rationality to the government's borrowing abroad as there is to buying high-cost Italian fashion shoes.

The usual justification for it is to test the market and/or to establish a presence in the market and a benchmark for South African corporate borrowers. Yet, one has not heard of the corporate sector pressing the government to blaze the trail.

Perhaps the ground preparation is more for the parastatals, but the necessity for parastatals to find market funding abroad is as flimsy as it is for the state.

Contractor financing of overseas fabrication is another matter and foreign exporters are never business-shy. The parastatals are simply misled into borrowing at supposedly cheap rates.

Theses rates may indeed prove to be cheap for them, but only on the basis of appropriate forward cover, which transfers the exchange losses to the foreign exchange loss account of the Reserve Bank and ultimately to the taxpayer.

The parastatals thus come out alright but the state carries its risks itself and must meet the full costs of borrowing.

Borrowing abroad is sometimes undertaken to add to the foreign exchange reserve position but it is questionable whether the state should assume this responsibility, especially when the overall level of public debt is at a disastrously high level.

The IMF drew on the compensatory and contingency financing facility in December 1993 expressly to bolster foreign reserves because of the strain to the balance of payments brought about by the drought. The proceeds were sold to the Reserve Bank in amplification of the reserves but the responsibility for servicing costs and redemption stayed with the state.

The only understandable motivation, despite its irrationality, is to demonstrate the country's financial virtuity.

As Owen Horwood, the former finance minister said: "It further proof of the country's high credit rating was needed, it was provided by the loans we have successfully raised in recent months in the full glare of international publicity."

> **A German bond raised R88m in 1983. The state paid service costs of R438m**

It is clear that the costs of borrowing abroad for a country which is structurally and chronically operating with a weakening currency are exceedingly high.

It is self-deluding to focus myopically on the rate of interest on the bonds and make comparisons with South African domestic rates.

As always, a little arithmetic is more compelling than assertion. Below I give the results for the major state borrowings abroad, excluding the ¥30 billion Samurai bond of last June and February's £100 million bond because servicing has not yet begun.

December 1983's 8,5 percent DM40 million German bond raised R88 million at the time. In the eight years to redemption, the state had to pay service costs of R438 million.

This gives an average annual service cost of 62 percent, which is way off the loan's 8,5 percent terms. The cost includes the exchange losses on redemption, which the finance ministry tucked away as management costs.

On the basis of marking to market as it were the capital exchange losses of each year can be brought to account. The costs, including interest and capital loss in rand terms, were over 33 percent over the eight years. They jumped dramatically in 1985, when the rand collapsed. That year, it was 124 percent.

Of course, in his hubris, Horwood could hardly have anticipated such a turn of events.

The 7,75 percent DM46 million German bond raised the following year fared a little better. For the use of R149 million, the state paid out R536 million over the next eight years, giving an effective service cost of 45 percent a year.

The worst year was again 1985, when the imputed service cost was 89 percent.

Matters clearly went awry in 1985 and borrowing has had to be more satisfactory in the past few years of political dismantling.

Nevertheless, the 10,5 percent DM55 million German loan drawn down in October 1991 and December last year was expensive by any standards up to last year, the average service cost on the October tranche was 27,6 percent, and on the December tranche 29,8 percent.

> **'It is a fair bet that the rand will move downwards, either steadily or in spasms'**

If current exchange rates are extrapolated to October and December this year when the two parts of the bond will be redeemed, the average service costs will be 28,5 percent and 32 percent respectively.

The 10,375 percent 56 million Ecu bond of February 1992 cost the country an average of 24,7 percent a year over the next four years. It will be redeemed next February and if the current exchange rate prevails until then, the average service cost will be 26,3 percent.

The IMF's $750 million loan of December 1993 has fared much better to date.

Assuming it was drawn down at the rate of 4,67 percent which was the standard drawing right rate applicable at the time, the average service cost in the two years to last December was 9,1 percent a year.

The recent collapse of the rand is going to make a phenomenal difference, however.

If the exchange rate is R4,30 to the dollar in December the imputed service cost for this year will be 24,8 percent.

Finally, the 9,7 percent $750 million global loan raised in December 1994 had an imputed service cost of only 12,6 percent last year.

Assuming an exchange rate of R4,30, however, this year's service cost will be 29,5 percent.

Of course, it is not inevitable that the rand will continue to depreciate in the future and one could claim that a withdrawal from the international markets would be tantamount to an admission of such an inevitability.

Given the price and cost mechanisms of our economy, however, it is a fair bet that the rand will move downwards either steadily or in lurching spasms.

Is foreign borrowing by the state worth it then, given the evidence of the past and the need to eliminate all forms of unnecessary cost in the budget? — Reuter

*☐ Osborn is an independent economist and a consultant to Edey, Rogers & Company, the stockbroking firm*

# Rand crisis adds R1bn to debt burden

(49) BD 29/5/96

THE rand crisis had added R1bn to SA's debt-servicing burden for fiscal 1996/97, taking the total to R37bn, Finance Minister Trevor Manuel told the Senate yesterday.

Reuter reports he said the interest payment next year was likely to increase to a "little more than R40bn" as the debt burden rose to R311bn.

**Greta Steyn** reports government in March budgeted for an interest and debt-servicing bill of R34,4bn. However, the projection was based on an average capital market interest rate for the year of 14% — compared with current levels of about 16,30%. Economists calculated that the extra interest paid to the domestic capital market

**Continued on Page 2**

# Debt burden (49)

**Continued from Page 1**

BD 29/5/96

would add about R1bn to the debt burden this year. To this had to be added the extra amount due to foreign creditors because of the rand's weakness.

The extra spending on debt servicing will take the increase from last year to more than 26%. Interest payments already consume almost one fifth of the Budget and their increasing claim on government's resources is one of the reasons economists are clamouring for privatisation.

Manuel said his department was continuing to devise new programmes to promote fiscal discipline and to cut state spending. "Gains made through zero-based budgeting have been important, but limited. The time has come to make savings through better co-ordination between departments and tiers of government, coupled with a sharper focus on programmes within every departmental budget." A new Budget council including provincial and national finance ministers, top treasury officials and the finance and state expenditure departments met last week for the first time. It would co-ordinate allocations to provinces and could contribute to the government's Budget reform programme.

"Initial discussions point to bringing the provincial budget cycle forward so that allocations are made and full discussions held prior to the end of February. This would enable the national Budget, when tabled in March, to be comprehensive and contain a full compilation of expenditure, borrowing requirements and revenue estimates."

The state expenditure department was examining the trend towards rolling over chunks of ministerial budgets and was looking at limiting rollovers not relating to projects that were under way, Manuel said. An audit of rollovers would be completed by the end of July.

# SA govt debt wins mediocre rating

(49) BD 6/6/96

EUROPEAN credit rating agency IBCA has given SA a long-term foreign currency rating of BB, which is two notches below investment grade.

The rating applies to senior and unsecured long-term government debt, and acts as a ceiling on the ratings of other SA issuers rated by IBCA.

The foreign currency rating compared with Mexico's and was better than the rating for Romania, IBCA said in Johannesburg.

IBCA has also assigned, for the first time, a BBB investment grade rating to SA's rand-denominated debt.

Bonds ended a volatile day sharply higher, with the benchmark government R150 20 basis points higher, lifted by speculation on the updated ratings — released after markets had closed. At 4.12pm the R150 was trading at a yield of 15,76% against Tuesday's close of 15,96%. The E168 was quoted at 15,88% from 16,07% at Tuesday's close.

Dealers said the market was initially knocked by worries over the rating and heavy foreign sales on Tuesday, but recovered by mid-morning.

Bond Exchange figures showed foreigners were net sellers of R544,69m of SA bonds on Tuesday after selling R130,72m on Monday.

The rand was mildly firmer at R4,3674 from R4,3750 after tracking the bond market. "The rand moved on the back of the gilts market, initially weakening and then taking heart as dollars flowed in from abroad into the bond market," a currency trader said.

IBCA's review is the first since the withdrawal of the NP from the govern-

Continued on Page 2

## Debt rating

(47)

ntinued from Page 1

BD 6/6/96

ment of national unity and the sharp fall in the rand, which has shed a fifth of its value against the dollar since mid-February.

IBCA's foreign currency rating, first assigned last year, is on the low side compared to Standard & Poor's BB+, also a speculative grade rating, and Moody's investment grade Baa3.

The agency said the recent fragility of market confidence had obscured tangible progress on growth, improved business investment, an impressive performance by manufactured exports and better-than-expected inflation.

This meant that the effect of the fall in the rand on import prices and inflation might be absorbed without pushing inflation into double digits.

Consumer price inflation was 5,5% in April, a 24-year low.

Trade competitiveness should also benefit, underpinning SA's foreign exchange earning capacity, IBCA said.

But downside risks remained.

"The Budget deficit remains too high despite recent reductions, given the level of private savings, the rise in investment and the risks of financing the resulting current account deficit," IBCA said. This was contributing to exceptionally high real interest rates.

The government had also moved slowly on privatisation, although the principle was now accepted, it said.

"Moreover, the political and associated economic risks in SA remain substantial," IBCA said.

"The departure of the NP means that the moderates within the ANC will now have to fight their own battles, and the ANC's traditionalists may not give Trevor Manuel, the new finance minister, an easy ride."

In addition, KwaZulu-Natal, where local elections are due on June 26, was a dangerous flashpoint and rising crime underlined social tensions.

IBCA noted that the higher domestic currency rating reflected the inherent strength of sovereigns in servicing their own currency because of their powers of taxation and, to a lesser extent, monetisation.

The better-than-expected performance on inflation underpinned the rating, it said. The public debt to GDP ratio remained below the Maastricht 60% criterion. — Sapa-Reuter-I-Net.

# Govt, bank look at infrastructure bill

(49) BD 7/6/96

Robyn Chalmers

GOVERNMENT and the Development Bank of Southern Africa are discussing the possibility of opening different interest rate windows for financing disparate levels of infrastructure, CE Ian Goldin said yesterday.

Goldin said the discussions were still at a preliminary stage, but were part of talks on the future role of the bank in assisting the financing of SA's huge infrastructure bill.

He said the bank was planning to lend money at rates which were closer to the current interest rates than the previous reduced rates. But the proposed revised rates could be balanced with concessional finance for low-cost recovery investments.

The bank's recent decision to refinance the R3,1bn of former homeland debt on its books at higher interest rates was in line with its policy of lending at rates closer to the commercial rate.

The average interest rate on the former homeland debt, which involved almost half of the bank's total loan book, was about 8% against commercial banks' prime rate of 19,25%.

However, Goldin said the refinancing talks were also part of the bank's need to build up its reserves to provide it with an improved income stream as well as strengthen its capital base.

This was largely due to government proposals that all national development finance institutions, including the bank, become increasingly self-sufficient and less reliant on state funding.

On the issue of affirmative action policies at the development bank, Goldin said he was comfortable with the recent appointment of former World Bank executive David Ferreira.

"We urgently needed an experienced person to protect government and bank interests and advise when negotiating deals on infrastuctural projects such as the Maputo Corridor.

"Talks with the private sector on such projects are rapidly gaining ground, and Ferreira has much experience on this sort of issue and can help to speed up the process," he said.

Goldin said the internal transformation task force, appointed to investigate the bank's restructuring and the affirmative action committee, would be making proposals on a rapid and effective affirmative action policy.

# South Africans are lords of nothing we survey

(49) ST 9/6/96

By CHRIS BARRON

IF SOUTH Africa needs a wake up call, this is it. A number of recent world surveys indicate we're among the highest-taxed, least-competitive, most-corrupt, least-secure and least-sexy nations on earth.

It may just be a coincidence, but the graph of world competitiveness, drawn up by the International Institute for Management Development in its 1996 World Competitiveness Yearbook, looks uncannily like Mount Everest.

At the summit is the US; Singapore is at camp four, preparing for a dash to the top; Hong Kong and Japan are at camp three; Britain, France and Australia at camp two; and China, Italy and Spain are still at base camp.

South Africa is still in Katmandu, bickering over equipment.

Okay, there is some good news. As bankers, we come sixth out of 46 countries, with the institute deciding our banking sector exercises a positive influence on industry second to few others. Cosatu, of course, might beg to differ, but the survey predated the commercial banks' latest unilateral interest rate hike.

The Reserve Bank gets fairly high marks (7,64 out of 10), and a 15th placing for the positive impact it is having on South Africa's economic development.

As far as the good news is concerned, though, that is pretty much that.

Even before the latest series of interest rate jumps, the cost of capital in South Africa was adjudged too high for competitive business development.

In the context of interest rate hikes and the subsequent talk of collusion among the banks, it is not entirely irrelevant to mention that our score on the monopoly chart stinks as well.

In none of the other 45 countries surveyed are domestic markets dominated by a handful of enterprises to the extent South Africa's is.

We've hit rock bottom in this category, with far too many of our key industries being gobbled up by far too few corporate giants.

The fact personal taxes are so high isn't doing the country's competitiveness any favours, either — they "discourage individual work initiative". We are the eighth highest-taxed nation out of the 46 surveyed, for which performance we are awarded a dismal and decisive fail — 2,25 marks out of 10.

South Africa comes bottom in the availability of skilled labour, bottom in economic literacy — with far too many workers having an alarmingly fragile grasp on where money comes from and how it should be used to create more money — and bottom in the quality of science-related education at schools. Of the countries surveyed, we also have the least number of students studying science- and technology-related subjects at tertiary level.

In view of the ongoing crime wave, it goes without saying that South Africa inspires less confidence among inhabitants and would-be inhabitants in their personal safety and the protection of their property than any of the other countries surveyed, bar Poland, Venezuela and Russia.

South Africa has the second-highest brain drain rate of the 46. Doing nothing to reverse this trend is the fact our immigration laws do more to prevent local companies employing foreign skills than the immigration laws in any but six of the other countries covered.

Government-imposed restraints on the negotiation of cross-border business ventures with foreign partners are found to be more stifling here than in any of the other countries.

While our international trading may get a firm thumbs down, as far as insider trading is concerned, we're up there with the worst. The institute concludes insider trading is more common in the South African stock market than in 28 of the countries surveyed.

Which brings us to corruption, and the encouraging news that we're less corrupt than Uganda, Kenya and Nigeria.

But a whole lot more corrupt, according to a 1996 survey by German-based Transparency International, than those in whose company we might fancy ourselves belonging.

New Zealand, the least corrupt nation on earth, Scandinavia, Canada, Australia, Britain, the US and 14 other countries leave South Africa's virtue looking somewhat tarnished.

Chairman of Transparency International, Dr Peter Eigen, stresses the survey was based on the perceptions of those who do business with South Africa, rather than on measurable statistics.

But, of course, for businessmen wondering who they should and shouldn't do business with, perception is reality.

A mitigating factor, perhaps, is that many of the countries which score better than South Africa have been let off very lightly.

Most of the corruption which afflicts developing countries like ours, says Dr Eigen, emanates from precisely those nations which emerged from this survey looking squeaky clean.

"We only deal with passive corruption — not with the perception of corruption coming from the industrialised countries," he told the Sunday Times this week.

"Most of the bribes on international contracts are paid by executives of corporations in the most advanced industrial countries," he said.

Not entirely unrelated to the topic of lies and corruption, of course, is the matter of *Sarafina2*. Not only has the debacle surrounding this musical enhanced our prospects of an even worse corruption rating next year, but it's done nothing for our performance in the sex and competitiveness surveys either.

According to the sex survey, safe sex is less likely in South Africa than in any of the other 14 countries surveyed. And AIDS is seen as a bigger threat to competitiveness in South Africa than in any other country looked at.

As lovers, we're best forgotten. In fact, as the 1996 global survey by Durex shows, we usually are.

# Forecast of 830 000 jobs in five years

(49) ARG 14/6/96

*Trevor Manuel outlines economic growth strategy*

CLIVE SAWYER
Political Correspondent

MORE than 830 000 jobs will be created in the next five years because of the government's economic growth plan, Finance Minister Trevor Manuel said today.

He outlined the plan in a presentation to parliament.

A combination of higher investment, both public and private, together with regulated flexibility would enhance job creation, he said.

Mr Manuel told the national assembly that a key thrust of the government's strategy was the promotion of continued productivity improvements.

These improvements were aimed at bolstering the development of skills in the workforce countrywide.

In terms of international comparisons, South Africa's investment in human resource development was inadequate, Mr Manuel said.

"Effective training across all employment sectors is central to our strategy."

Investment in social and economic infrastructure would play an important role in providing for long-term growth in productivity of capital and labour, while providing for a much-needed extension of basic services to households.

There was a backlog of about R170 billion in infrastructure, Mr Manuel said.

A large-scale public sector investment programme was a core ingredient of the new growth strategy.

This would "crowd in" private investment and help to boost the growth rate towards the required 6 percent.

Mr Manuel said the government's aim was to address deficiencies in the country's major network infrastructure and the backlogs in household infrastructure over the next five to ten years.

He said the annual Budget would make provision for a steady increase in capital spending.

But private sector resources would have to be geared to finance investment plans.

The framework for financing municipal infrastructure had been designed to mobilise the best possible mix of government grants, development finance and private investment.

The national public works programme would have a "very special place" in this.

**JOB CREATOR:** Finance Minister Trevor Manuel in parliament today.

## Options spelt out for state sell-offs plan

Political Correspondent

OPTIONS for privatising state assets are spelt out in the government's macro-economic strategy disclosed today.

Restructuring may involve the total sale of the asset, a partial sale to strategic equity partners, or the sale of the asset with the government retaining a strategic interest.

Restructuring will take place in a phased manner to ensure maximum value and adequate regulatory frameworks

The document said detailed sectoral consultation, planning and preparation for asset restructuring was taking place.

The telecommunications sector aimed to complete negotiations this year to find a strategic partner and address other restructuring issues.

A similar process is to unfold this year in other sectors, including minerals and energy, agriculture, forestry, leisure and transport.

## Exchange controls to be relaxed

**THE government remained committed to the phased lifting of exchange controls, Mr Manuel told parliament.**

**New measures announced today include:**

- **Policies directed at foreign investors to include relaxation of access to domestic credit.**
- **An increase in the limit of asset-swaps by institutional investors to 10 percent.**
- **Institutional investors will be allowed foreign currency transfers during this year of up to 3 percent of the net inflow of funds during the previous calendar year.**

**Mr Manuel said approval of these transfers would be subject to the 10 percent limit on asset-swapping.**

**Finally, corporate entities which operate in the export field and also import goods will be allowed to offset the cost of imports against the proceeds of exports, provided the set-off takes place within 30 days.**

**Also announced were adjustments to exchange control limits.**

# Manuel's bold plan for growth of 6%

(49) ARG 14/6/96

## *Finance Minister firmly behind privatisation*

CLIVE SAWYER
Political Correspondent

FINANCE Minister Trevor Manuel today unveiled a market-friendly economic plan aimed at increasing growth to 6 percent by the turn of the century.

A firm commitment to privatisation is a key element of the plan, outlined in Mr Manuel's budget speech to the national assembly.

The government's plan for rebuilding the economy entails:

- A competitive platform for export growth.
- A stable environment for a surge in private investment.
- Restructured public services and government capital expenditure.
- New emphases in industrial and infrastructural development.
- Greater labour-market flexibility.
- Enhanced development of human resources.

The strategy envisages a strengthening of economic growth while containing inflationary pressure through a tighter fiscal stance.

**FULL REPORTS AND PICTURE ON PAGE 11**

The government also wants to reinforce appropriate monetary policy that is able to stabilise the real exchange rate, further reductions in tariffs and a commitment to moderate wage demands.

Also part of the strategy is an increase in labour absorption by economic expansion of non-traditional exports and improvements in the functioning of the labour market.

The package emphasises the need for an improvement in income distribution through an effort to change the composition of government spending, the direction of its tax and investment incentives and a commitment to speed up social services.

Key elements of the package announced today are:

- A faster fiscal deficit reduction programme.
- A renewed focus on budget reform to strengthen the redistributive thrust of spending.
- A commitment to moderate wage demands.
- An exchange rate policy to keep the real effective rate at a competitive level.
- A consistent monetary policy to prevent a resurgence of inflation.
- A further step in the gradual relaxation of exchange controls.
- Speeding up in the restructuring of state assets.
- Tax incentives to stimulate new investment in competitive and labour-absorbing projects.
- An expansionary infrastructure programme to address service deficiencies and backlogs.
- A strengthened levy system to fund training so that it is commensurate with needs.

Prefacing Mr Manuel's speech today, Deputy President Thabo Mbeki said the broader framework was the Reconstruction and Development Programme.

Mr Mbeki said the policy announced by Mr Manuel was the "central compass" which would guide the government's other sectoral growth programmes.

"As government, we are confident that the policy is right and that both this parliament and our social partners will join us in its implementation," Mr Mbeki said.

A report would be published soon on a plan for the public and private sectors to work together, he said.

Picture: LEON MULLER, Chief Photographer.

**NICE WORK:** Finance Minister Trevor Manuel gets encouragement from Justice Minister Dullah Omar sitting behind him in the national assembly.

## State assets strategy outlined

TYRONE SEALE
Political Staff

THE government is finalising plans to restructure state assets in a way that delivers the socio-economic miracle that will place wealth in the hands of all, says Jay Naidoo, Minister of Posts, Telecommunications and Broadcasting.

But while the state seeks out strategic partners to help deliver basic infrastructure and services, it has no intention of relinquishing its majority control in key parastatals, he says.

Speaking in the national assembly today, Mr Naidoo said R170 billion was required to drive a programme that would deliver growth, provide basic services and have a multiplier effect on the economy.

The government on its own did not have these resources and would have to seek partnerships with the private sector, labour and the community.

Parastatals were a foundation of this strategy.

One of the priorities in the restructuring of state assets was to develop a code that clearly established the role of the government as the shareholder, the board as its representative, and its relationship to the management and the workforce.

In key institutions, the government had no intention of relinquishing control.

In Telkom, the engagement of a strategic equity partner was fundamentally based on the government retaining majority shares and driving the restructuring of the company to deliver services people demanded.

# Manuel pledges reduction in government borrowing

(49) Star 15/6/96

f a macro-economic policy that has to address the needs of a large
y way out"

**Minister hopes to enlist co-operation of labour and business to 'shift gear' and get the economy up to its full potential, reports BRUCE CAMERON**

Cape Town – The reduction of government borrowing was a fundamental and non-negotiable target of the Government's macro-economic strategy, Minister of Finance Trevor Manuel said yesterday.

In an interview with Manuel, his deputy Gill Marcus and deputy director-general of finance Maria Ramos, he said the strategy had been based "on what type of macro-economic policy will support the Reconstruction and Development Programme".

Earlier in Parliament, in the first major economic policy statement since the fall in the value of the rand and the exit of the National Party from the Government of National Unity, Manuel received the full support of his cabinet colleagues.

In an unusual step, Deputy President Thabo Mbeki opened the finance debate, announcing the broad details of the macro-economic strategy. He was followed by Manuel and senior cabinet ministers, including former head of the RDP Jay Naidoo and Labour Minister Tito Mboweni.

Manuel hopes by using this strategy to "shift gear" and, with the co-operation of labour and business, to get the economy up to its full potential. He knows that the Government has made a tough choice and that "the pain of adjustment will have to be shared equally".

He said most governments which had to address the needs of a large poverty-stricken population would have gone the easier route of spending more.

Manuel said the Government had the responsibility to set macro-economic policy. Once this was done, "we have to try and bring people in". Even if business and organised labour accepted the broad framework and targets, "the devil will be in the detail".

Marcus said she believed that business and labour were pulling back from the hardened positions of a few weeks ago. "They have received the signal (from the Government) that what they were doing was unacceptable. They might not have found each other but they have taken stock of their own positions," she said.

Manuel said his appeal to labour and business for wage and price restraints was "not a wage and price policy". In a social pact, wage demands should be tailored not only to inflation but also to productivity, he felt. If productivity improved, then wages could also be increased.

However, productivity did not lie in the hands of labour alone. It was also the responsibility of business to train the labour force. He said further negotiations were needed on issues such as a training levy on businesses.

Ramos said that although monetary policy would remain firm, it would no longer have to take the strain of keeping a grip on the economy alone. It was a package of reforms that would achieve targets such as a growth rate of 6%, lower inflation and lower interest rates.

Monetary policy was already being assisted in achieving these targets by changes to industrial policy, while fiscal discipline, restricting government borrowing and upward pressure on interest rates, were also key elements.

But it was a package, not only a fiscal policy. It was a set of policies that should be consistent. And in an unusual quirk, Ramos said the process had been helped by the depreciation in the rand, as this would stimulate exports and help locally produced goods to compete with imported goods on domestic markets.

# Cheers and jeers greet growth plan

Star 15/6/96 (49)

**By ADRIAN HADLAND**

The Government's new blueprint for economic growth and employment, unveiled in Parliament by Finance Minister Trevor Manuel yesterday, has received mixed reactions from different sectors.

Business groups hailed the blueprint, called the Macroeconomic Strategy for Growth, Employment and Redistribution, as a bold, ambitious but welcome step.

Trade union representatives said there were aspects of the plan with which they were happy, but also expressed "serious reservations" about some areas.

South African Chamber of Business director-general Raymond Parsons said the plan, which aims to boost economic growth from less than 3% to 6% of GDP and create up to 400 000 jobs per annum by the year 2000, was "a major step in the right direction".

"In many ways it responds to recent business calls for economic leadership by Government and for greater predictability in economic policy."

Parsons welcomed the tax incentives provided by the plan, the proposed assistance to small and medium business, the relaxation of foreign exchange controls and the Government's continuing commitment to fiscal discipline.

TREVOR MANUEL

"While a long and arduous road lies ahead and sacrifices by all will be required, this policy outline points the way ahead and should give a fillip to investor confidence," Parsons said.

He added, however, that the Government could have been less ambivalent regarding its attitude to privatisation in the plan.

Cosatu assistant secretary-general Zwelinzima Vavi said the labour movement was pleased to see the incorporation of several points in the plan, including the focus on education, the use of public works programmes, the commitment to infrastructure development, and the linking of tax incentives to job creation schemes.

These aspects, among others, had all been advocated by labour and had featured strongly in its own contribution to the economic policy debate, Social Equity.

But Vavi also said Cosatu had serious reservations over other elements of the plan, in particular the "conservative fiscal policies" the document intended to implement.

The plan outlines a radical reduction in state debt from 5,1% of GDP this year to 3% by 2000. It does not rule out the possibility of raising value-added tax.

"These prescriptions do not take into account the state of development in the economy and the need for massive spending on infrastructure and development," Vavi said.

He also stated that the document's call for "wage moderation" sat uneasily with Cosatu's policy of targeting the wage gap and, especially, its call for the moderation of the wages of senior managers and executives.

TO PAGE 2

## Growth plan

Star 15/6/96 (49)

Cosatu said it would provide detailed comments on the plan once the federation's members and structures had studied the document more closely.

Political parties, meanwhile, expressed reserved support for the macro-economic strategy.

National Party finance spokesman Theo Alant told Parliament the plan would receive "critical support" from the NP.

The ANC would have to ensure trade unions assisted in the development of the economy rather than continue with strikes, protests and mass action, he said.

"The question is whether the strategy is possible. Every day we hear of threats of mass action and destructive actions. One wants to ask: who is going to do the work?"

The test of the plan would be whether new foreign investment could be attracted to South Africa, he said.

Democratic Party finance spokesman Ken Andrew described the plan as "encouraging". It contained more substance and quantification than previous documents, and correctly emphasised the importance of economic growth, job creation, foreign investment and the need for international competitiveness, he said.

"As with all plans, the proof of the pudding will be in the eating."

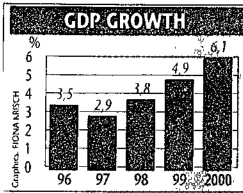
Andrew added that many details still needed to be spelt out, while the need for privatisation and greater labour market flexibility required concrete implementation.

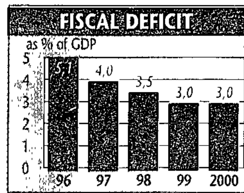
In his presentation of the document to Parliament, during the Finance Department's budget debate yesterday morning, Manuel said the plan represented "a framework which sets the parameters for change".

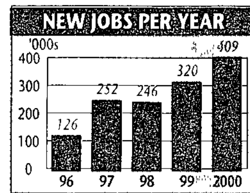
The programme would unleash SA's potential for economic growth and would bring many gains in its wake, he said.

"We are at the beginning of a new era," he concluded.

See Pages 3 and 7




# 'Thatcherite' plan opens new doors

ST (MT) 16/6/96 (49)

By SVEN LUNSCHE

"CALL me a Thatcherite," is how Deputy President Thabo Mbeki greeted the media after the government's macro-economic plan was revealed in Parliament on Friday.

Economically this description was a bit off the mark but it is nevertheless an apt comment on the overall direction of the Growth, Employment and Redistribution Strategy.

The programme, unveiled by Finance Minister Trevor Manuel, relies on a mixture of tax incentives, renewed fiscal restraint, further exchange control relaxation and, critically, a commitment to labour market reform.

Mr Manuel detailed a number of practical measures but was vague on perhaps the most critical aspects of a reform programme — privatisation and a more flexible labour regime.

The programme was welcomed by local businessmen but foreign investors, deterred by the lack of concise privatisation timetables and more widespread exchange control liberalisation, drove the rand down by about 5c on Friday.

The most controversial aspect of the strategy are its labour market reforms which are likely to meet with strong resistance from Cosatu. The document foresees a "social agreement to facilitate wage and price moderation, underpin accelerated investment and employment and enhance delivery".

Mr Manuel warns that the framework is not up for negotiation "but clearly we have to negotiate the details with our social partners".

The document projects growth of 3,5% this year, falling to 2,9% next year but rising steadily to achieve 6,1% by 2000. This scenario envisages an increase in job creation from 126 000 this year to 409 000 by 2000.

"Growth itself will account for one-third of new jobs while more than half of new private sector job opportunities will have to arise from institutional reforms in the labour market and private sector wage moderation," the strategy says.

A critical element of the economic model is a commitment to even sterner fiscal discipline. The deficit is seen as dropping from 5,1% in 1996 to 4% in 1997 and 3% by 2000.

The projections have been met with scepticism by economists but Mr Manuel believes that stricter auditing, a cut in the number of civil servants and a limit to wage increases will ensure targets are met.

Other reforms can be grouped in three major categories.

## Labour market

Some of the proposed measures could run foul of existing labour laws or recommendations by the Labour Market Commission, to be released this week. Mr Manuel emphasised, however, that laws could be changed if necessary.

He did not envisage a minimum wage across the whole economy. Instead the strategy seeks to set minimum wages according to appropriate standards by sector and area.

Wage agreements would have to be sensitive to regional labour market conditions, the diversity of skills levels in firms of varying size, and the need to foster training for new labour market entrants. These reforms could include a less onerous wage schedule for young trainees.

## Foreign exchange

The government announced a further liberalisation of foreign exchange controls, but shied away from a "big-bang" approach. The reforms, to come into effect later this month, include:

- Allowing local financial institutions to swap up to 10% (previously 5%) of their assets with an overseas institution. Of this 10% institutions may also transfer 3% of their 1995 net inflows into foreign currency.

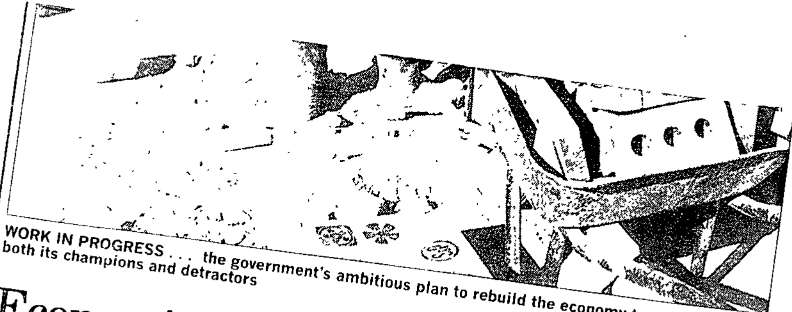
  Life insurance officials estimate that 3% of net inflows amounted to no more than R2-billion.
- Merging the holiday and business allowances for SA residents to a total R60 000 a year.
- Lifting the borrowing capacity of foreign investors from 50% to 100% of shareholders' equity.

## Trade and industry

In order to attract foreign investment Mr Manuel announced a range of new tax allowances.

They comprise an accelerated depreciation for all new investments in manufacturing — to three years at 33,3% for plant and machinery and to 10 years at 10% for new buildings — and tax holidays of up to six years for new investments, depending on regional location and job creation.

The depreciation of the rand would also lead to a compensating lowering of tariffs, Mr Manuel said.



WORK IN PROGRESS . . . the government's ambitious plan to rebuild the economy to create jobs has both its champions and detractors Picture: RUSSELL ROBERTS

# Ecomonic policy welcomed abroad

ST 16/6/96 (49)

OVERSEAS fund managers have joined local businessmen in giving a cautious thumbs up to the government's macro-economic blueprint, about which Cosatu has expressed "serious reservations".

The strategy, which emphasises growth and employment, was unveiled by the Finance Minister, Trevor Manuel on Friday.

Michael Power, the manager of the Southern African Simba Fund at Baring Asset Management, said the plan deserved a cautious welcome. "With the exception of privatisation, it showed the government has come a long way.

"I liked the tax incentives and what was said about labour. The aim of holding the budget deficit to four percent of gross domestic product is still high, but as much of government spending will be on investment, it may not be that bad.

"Overall, it sets targets against which economic management can be judged."

At a leading international investment bank, however, Mr Manuel was accused of "leaving out some hard macro-economic issues which needed to be dealt with".

The banker, who wished to remain anonymous, said: "Mr Manuel did not take the privatisation issue much further and the government seems to be sticking with its stop-go attitude towards it. In addition, no time horizon was set for the end of exchange controls."

Reuter reports that the South African Chamber of Business lauded the strategy as a step in the right direction The director general, Raymond Parsons, said a target of six percent growth and 400 000 new jobs a year by the year 2000 was ambitious, but possible.

Parsons said there was still some ambivalence on government policy over privatisation, but further clarity on the issue might emerge from Public Enterprise Minister Stella Sigcau's speech to Parliament on Friday.

The South Africa Foundation also gave the blueprint the thumbs up. "It is . . . a creative and decisive response which speaks of courage and conviction," it said

It welcomed the approach on the restructuring of state assets and strongly supported a cut in the overall budget deficit

"As regards exchange-control policy, we welcome the indications of liberalisation and hope the intentions towards full realisation will be pursued vigorously."

The overall emphasis on the control on inflation was also welcomed

Cosatu said it had reservations over the government's plans to implement conservative fiscal policies and its call for wage moderation.

It noted that a number of the document's prescriptions were contrary to its own earlier economic strategy document, the social equity document

"The document's call for wage moderation sits uneasily with Cosatu's policy of targeting the wage gap, and our call for wage moderation for senior managers and executives," it said. — *John Cavill in London and Sapa*

US RESORT
AGICAL PRICE!

# Cosatu responds cautiously to Manuel's macro-economic strategy

(49) Star 17/6/96

By Goba Ndhlovu

While trade union federations are divided in their reaction to the Government's announcement of its macro-economic strategy, business has backed it to the hilt.

The 2,5-million strong Cosatu registered mixed feelings about the plan unveiled by Finance Minister Trevor Manuel on Friday.

Through its deputy general secretary, Zwelinzima Vavi, Cosatu said it would respond in an informed manner, guided by the policy directions contained in the RDP and social equity document.

Cosatu has now asked the leadership of its affiliates to study the plan in detail in terms of the RDP and labour's social equity document.

The federation hopes that by doing so it will be able to identify areas that need "further elaboration, reformulation, new emphasis and differences in policy approach".

Again, Cosatu would judge the macro-economic strategy document by the impact it would have on the "working-class and the poor; job creation and retention; wage levels; workers' rights; provision of infrastructure; the Government's role in the productive sector of the economy and labour market.

The only aspect that seemed to please Cosatu was the section that focused on education; use of public works programmes; commitment to infrastructure development; linking of tax incentives to job-creating schemes and the expansion of labour market regulated net.

But Vavi stated that Cosatu had serious reservations regarding the conservative fiscal policies intended for implementation. He said its prescriptions "fly in the face of labour's proposals set out in the social equity document".

Against Cosatu's position is that of Steel and Engineering Industries Federation of South Africa (Seifsa), which welcomes the new economic strategy document.

In a press statement, Seifsa described the minister's document as market friendly, saying it showed the Government was committed to increased economic growth, reduced unemployment and in promoting "an investor-friendly environment by the year 2000".

Regarding wage moderation, Seifsa is not overly worried. As long as the wage moderation call is productivity-linked, Seifsa feels it is encouraging.

The Anglo-American Corporation has described Manuel's strategy as a "substantial achievement" which sends a positive signal to markets and investors.

The South African Foundation also welcomed the strategy. Of great importance to the foundation are the goals put forward in the fiscal policy.

# Manuel's package represents a decisive break with the past

(49)

GRETA STEYN BD 18/6/96

THERE was something jarring about Jay Naidoo's use of the word "comrades" in Friday's finance debate in [illegible]

[illegible] was finally discarded with the release of government's macroeconomic framework.

The ANC has come a long way and the extraordinary thing is that it happened in such a short time.

But government's unambiguous stance has generated vigorous debate within ANC ranks, and with its allies Cosatu and the SACP.

The debate is on the role government should play in the economy. Those who criticise the plan from the left believe government has a stronger role to play than foreseen by Finance Minister Trevor Manuel. But these critics are probably missing the point that the package accords a key role to the public sector.

Of the 833 000 new jobs the package aims to create by the turn of the century, government programmes can account for a quarter, the strategy document says. Real government investment growth is projected to grow almost 17% between 1999 and 2000, while the rate for parastatals is put at 10%.

A large portion of public sector fixed investment will not be on central government's budget, because of the major role foreseen for local authorities and parastatals. But that does not detract from the fact that the public sector does play a meaningful role in the creation of new jobs in Manuel's plan. Critics need not fear a "Thatcherite" rolling away of the public sector.

The important point the policy package makes about the public sector's role is that it hinges on economic growth. Massive increases in government and parastatal fixed investment will be possible only as a result of economic growth.

That approach represents a turnaround for many in the ANC, who believed the causality ran the other way around. They saw rapid government spending as a spur for growth. But the approach now is growth first, big government spending later. That is a view that is often hard to swallow politically, especially as it is not always apparent in the short run that the growth, if it materialises, will be translated into a better life for all.

So, how will that growth be achieved? Manuel suggests cutting central government's deficit will help generate growth. That is a view that would seem odd to any (crude) Keynesian, especially at a time when the economy is slowing down.

Giving his reasons for speeding up a cut in the deficit to 4% of GDP in the next fiscal year, Manuel said: "We need a bold stand to increase domestic savings and keep inflationary pressure in check. This (the deficit cut) will stimulate private-sector investment."

The stimulation of private investment, however, does not follow as night after day from the deficit cut. The effect is indirect — via interest rates — and there is likely to be a time lag. A cut in the deficit reduces government's borrowing and, as a result, interest rates need not be so high. A lower interest rate is essential for an acceleration in private investment growth.

Government foresees a fall in the real Bank rate from 7% this year to 3% in 1999 if the package is implemented. Contrast this with the base scenario, in which the real rate falls more slowly and is 4,5% in 1999.

A major feature of the plan is the creation of conditions conducive to lower interest rates, of which the deficit cut is one element.

The emphasis on wage moderation will also help reduce the burden on monetary policy to fight inflation.

Also playing an important role in the anti-inflation plan is the speeding up of tariff reductions, to compensate for the rand's depreciation.

The combination of a weak exchange rate and aggressive tariff reforms is seen as crucial for the creation of an internationally competitive economy. The focus on international competitiveness should reduce the importance of strong domestic demand as a determinant of private fixed investment.

The package focuses on creating a macroeconomic environment in which private fixed investment can flourish to set off a virtuous circle of growth. But macroeconomic policy alone is not enough to get the desired rates of private fixed investment — hence the need for an active industrial policy.

MANUEL

The granting of tax incentives for investment, and tax holidays in certain instances, is a major step forward. It represents a break with past ANC thinking which opposed tax incentives for companies because they "eroded" the tax base.

What will the effects be of the combination of sound macroeconomic and industrial policy?

The strategy document is optimistic — if the package is implemented, it projects real growth in private investment of about 9% this year and next year. This growth compares with about 6% in the baseline scenario for this year, and a slowdown to about 4% next year.

The projections seem unrealistically optimistic, and illustrate one potential problem with the package: it might take longer to kick in with quite as much force as its architects foresee. It might take a little longer for enough growth to materialise to finance a massive public-sector investment push which meets basic needs and creates jobs.

But that problem is nothing next to the real obstacle — the feasibility of implementing the package.

Can government realistically reduce the deficit to 4% of GDP in the next fiscal year, when there is every indication that it will battle to meet this year's target of 5,1%? It is common cause that if delivery picks up — if there is a smaller rollover of spending into the next fiscal year — the deficit will exceed 5,1%.

To meet this year's target, and [illegible] next year's to 4% of GDP, will require a steely determination and fancy footwork on the political front.

It is painfully obvious that some [illegible]

[illegible] momentum which will be extremely difficult to arrest. It seems inevitable that some RDP allocations will have to be scrapped, more so if they are spent — in fact, the strategy suggests this is about to happen.

The other difficulty lies in achieving "wage moderation", one of the elements of labour market reform.

The strategy accords an important role to reform of the labour market. About 30% of the new jobs will emanate from institutional reforms in the labour market, private sector wage moderation and "employment enhancing policy shifts", the document says. The focus on the labour market will intensify this week with the release of the labour market commission's findings.

The strategy's assumptions on private sector wages are not dramatic. Aside from this year, positive real growth of 1% a year is still expected. But will the unions accept that? Likewise, the unions can be expected to kick up a fuss over the speeding up of tariff cuts.

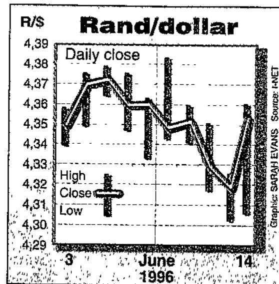
Cosatu's power in influencing policy is obvious from the lack of detail on privatisation in the strategy.

Privatisation, in the first couple of years at least, will not play a big role in the reduction of government's borrowing requirement. That point has not been lost on foreign investors.

Foreign capital inflows are a major factor in the success of the package. Inflows will help bring down interest rates, and will finance a current account deficit kept high by faster tariff reductions. Will foreign confidence be enough without robust privatisation? The package, whatever its apparent short-term costs, is the only way to ensure sustainable job creating growth. Manuel is in a better position to see it through than his apolitical predecessor Chris Liebenberg. The plan might not be an Iron Lady strategy, but it will take a comrade with nerves of steel to implement.

□ Simon Barber's column will appear tomorrow.

LETTERS




# Labour response to plan cautious

(49)

**Business Day Reporters**

LABOUR's carefully worded preliminary response to government's macroeconomic strategy was designed not to highlight claims or threats to the ANC-Cosatu alliance but to indicate legitimate concerns about fiscal discipline and wage moderation responsibly.

But this tempered response might have to be reviewed in weeks to come if Cosatu's leadership was placed under pressure from members on the ground, labour sources indicated yesterday.

Cosatu was satisfied with government's focus on education, public works, infrastructure development, linking tax incentives to job creation and expansion of the labour market regulated net. However, it had serious reservations about conservative fiscal policies which it said were not in line with its social equity proposals. Labour's social equity document said: "Reducing the deficit too quickly would cause deflationary pressure on the economy and would slow down economic growth and job creation."

Cosatu said proposals around wage moderation were contrary to policies which targeted reducing the wage gap. It called for wage moderation for senior managers and executives.

BD 18/6/96

Continued on Page 2

## Labour (49)

Continued from Page 1

BD 18/6/96

Although Cosatu did not highlight government's move to further reduce tariffs, this too "flies in the face of labour's proposals" Labour has proposed a review of the current trade liberalisation programme and where job losses may result, "our country should not liberalise faster than required under the terms of GATT"

SA Chamber of Business director general Raymond Parsons said the framework was a major step in the right direction and should provide a fillip to investor confidence

"Government's positive approach to macroeconomic policy, together with an all-embracing growth strategy, showed its willingness to investigate innovative ways of job creation

"In addition, its preparedness to introduce a flexible position towards labour market realities should give investors here and abroad encouraging signals on SA's long-term future "

Sasol said the accelerated depreciation on plant, machinery and building would have a positive effect on investment — which would benefit the group's cash flows and also expand its large capital investment programme

SACP deputy general secretary Jeremy Cronin said the party broadly welcomed the framework which "had not displaced the RDP". Although government had come up with a coherent policy which relied on providing the right climate for investors, there were no guarantees that if SA did the right thing, growth would be achieved

The second-largest trade union federation, Fedsal, congratulated government on efforts to give direction to the economic debate It said the focus of economic debate should be around government's proposals

The rand weakened sharply against the dollar following the release of the plan, losing more than 4c to R4,36 in late afternoon trade

Equities also lost overall, but moved off the day's worst levels on squaring of positions before the long weekend Dealers said the impact of the plan had been cautiously neutral, and the market was holding off to digest it before reopening after the holiday

Dealers in the capital market said the overall content of the blueprint had been discounted over the previous two days, and foreign banks had led profit-taking when the plan contained less detail than they had hoped for

The gilts market ended weaker on Friday, giving up early gains when foreigners sold after the announcement. "After the rand sell-off, bonds followed suit," one dealer said A mild sell-off had been predicted earlier, dealers saying the market had been "buying the rumour" and was likely to "sell the fact" however it received the news

The government's benchmark long bond was trading at a yield of 15,6% late on Friday, two points higher than the previous day's close The electricity bond was also weaker at a yield of 15,725, 3,5 points up

# Govt's growth blueprint gets enthusiastic welcome

(49) BD 19/6/96

Reports by
Lukanyo Mnyanda

GOVERNMENT's blueprint for economic growth, announced on Friday, has brought a positive response from the building and property industry. Spokesmen said it could bring increased activity and sustainable growth if given business and labour support.

"Since President Nelson Mandela's recent visit to Germany, government has been making all the right noises. It is telling the international investor community that SA is a good risk," BMI Business Research strategy consultancy unit director Llewellyn Lewis said yesterday.

He was especially pleased with the strategy's emphasis on privatisation, growth and job creation.

Lewis said the building and construction industry must be an important component of any strategy aimed at job creation. He believed an effective social partnership between business, labour and government would develop over time and that all "current hassles" would be solved.

The Building Industries' Federation of SA (Bifsa) welcomed the strategy, saying it would stimulate activity in the industry.

Executive director Ian Robinson said: "Government's plan will go a long way to stimulate activity in building and hopefully we can get back on a path of sustainable growth as a result. However, it is important that business and trade unions give the document their unqualified support."

Labour's response has been more cautious. It has praised factors such as the emphasis on education, public works and infrastructure development, but was more guarded on government's emphasis on fiscal discipline and wage moderation.

Robinson said the policy framework's aim of reducing state borrowing would help reduce the upward pressure on interest rates. The industry could expect robust growth if rates declined.

He welcomed government's objective of making more money available for skills training.

Seeff Holdings CE Errol Finkelstein said the strategy's positive factors included a possible lower interest rate, mild inflation, job creation and higher business confidence and growth

SA Property Owners' Association executive director Brian Kirchmann said the strategy was a step in the right direction, but even bolder steps were required to eradicate violent crime and to attract investment.

# Mandela says sacrifice is a part of 'new patriotism'

BD 21/6/96 (49)

**Tim Cohen**

CAPE TOWN — President Nelson Mandela yesterday endorsed the recently announced macro-economic framework as an expression of "new patriotism", acknowledging that sacrifice would be necessary to make it work.

Speaking during the President's budget vote in parliament, Mandela said the framework enjoyed the support of the overwhelming majority among various sectors and political schools of thought.

"We would be less than candid if we did not acknowledge that reaching the major summit we have identified for the turn of the century will require some deliberate investment on the part of all those involved."

To exercise moderation in wage and salary increments was to invest in greater capital injections and thus create possibilities for hundreds of thousands of people to be absorbed into the mainstream of the economy.

"We should all frankly acknowledge that there will be sacrifice," he said.

This sacrifice would be shared by all and no one should seek to exploit the co-operation of others for narrow selfish interests.

Mandela repeated his assertion that privatisation, strategic equity partners and organisational restructuring were all government policy.

He said he had been informed that substantial progress had been made in negotiations with unions.

He mentioned Mossgas, the SABC regional radio stations and progress in the telecommunications sectors as pointers to the many forms restructuring would take.

Mandela pointed out that the better use of taxes and restructuring of the civil service would allow for more funds to be used for purposes that had direct social benefit.

Government had to ensure there was a stricter control of spending and not allow things to continue "simply because they have always been there".

Mandela emphasised strongly the need for job creation saying that jobs were the dividing line in many families between self-esteem and helplessness.

He challenged all South Africans, including political leaders, businessmen, visitors and employees abroad.

"Our success in portraying who we truly are to the world depends on all of us.

"It is one thing for us to acknowledge our problems openly and frankly. Yet it is another to engage in the kind of self-serving scepticism that has the intended or unintended effect of discouraging prospective investors about the real prospects that our country has," he said.

Three economists evaluate the government's growth strategy — with mixed opinions

# The standard stock of ideas

M+G (BM) 21-27/6/96 (49)

**Zunaid Moolla**

THE government's macro-economic framework is disappointing on all three counts of its title — growth, employment and redistribution.

Despite increased investment projected for government, parastatals and the private sector, it achieves a meagre average gross domestic product (GDP) growth rate of 4,2% over four-and-a-half years, which rises to 6,1% by the year 2000. For the first three years this is only slightly higher than population growth of approximately 2,5%.

The costs of achieving this modicum of growth, on the other hand, are quite high. The fiscal deficit is gradually reduced to 3% of GDP, indicating a marked withdrawal of the state from playing a leading role in catalysing and directing economic activity.

When real government investment growth increases eventually to 16,7% and the fiscal deficit is reduced to 3%, we are compelled to ask which social programmes will be abandoned. For it is not clear that sufficient revenue will have accrued to the state (with employment growth increasing at an average of 2,9% during the period) to allow for this level of investment and still have funds available for satisfying the basic needs of a vast section of the population, whose numbers will have increased even more by that time.

Moreover, real wage growth in the private sector is projected to grow at no more than 1% per year for the four years, suggesting that there will be little prospect for the state to increase the proportion of taxes paid by the working class.

The reduction in revenue is compounded by the government's proposal to introduce a flexible labour market which implies a two- or three-tier system, with the second and third tiers earning considerably less than those in formal, skilled employment. The inequality in incomes for which South Africa has been notorious is thus set to grow, encouraged in part by government policy.

With the emphasis on manufactured exports, generally capital-intensive in nature, we must assume that a higher proportion of the 1,3-million jobs that will be created between now and the end of the century will be in the service industries or the infrastructure programmes. Given the severe deficiencies and backlogs in infrastructure, we would have expected a much higher rate of growth in employment. In fact, when we look at the ratio of the combined rate of growth in investment by government, parastatals and the private sector to the number of jobs created, we see that an average growth of 26,4% per annum in investment yields no more than 270 000 jobs.

The lesson that appears not to have been learned here is that non-export production generates more jobs than the export-producing sectors. Estimations done by the National Institute for Economic Policy (NIEP) show that for the United States economy a 1% increase in non-export production creates almost twice as many jobs as a 1% increase in export production.

For the United Kingdom and Italy the magnitude is even larger, with four times and 3,4 times more jobs being created respectively. Here it might also be useful to point out that data from a diverse group of countries revealed that over the last 35 years exports consistently constituted a small share of their GDP. This included countries that have vigorously promoted their exports for many years, namely, the US and Japan, where the share of exports to total output was only 8% and 10% on average respectively between 1960 and 1994.

Such dismal projections for growth and employment are, of course, bound to make a mockery of redistribution as spelled out in the Reconstruction and Development Programme base document. The standard mantras of education, health and welfare services, housing, land reform and infrastructure are mentioned in their usual rhythmic cadence. But they are nowhere made to appear as the core of a reconstruction programme with the vital force that they each possess for rejuvenating the economy and setting it on a long-term sustainable path.

For all the talk of tax incentives there is not even a single mention of capital gains tax or a wealth tax for those companies and individuals who are not prepared to shift gears at this new juncture. This is best illustrated in the investment-savings gap, which shows a spread of some 11% narrowing to 3% by the year 2000.

Then there is the optimistic assumption that all export earnings will be re-invested in the country. It is optimistic because the authors appear not to have considered that with the removal of exchange controls capital flight is a distinct possibility, or that a good portion of those export earnings could be spent on imported luxury consumption items. The consequences for both the capital and current account in these scenarios are self-evident.

What the new macro-economic strategy lacks most is a sense of urgency about what needs to be done to break the cycle of poverty in an otherwise wealthy country. Alternative strategies appear to have been ditched in favour of the standard stock of ideas that have prevailed in this country for the past half-century. We can, and should, do better than this.

● Zunaid Moolla is acting general manager, National Institute for Economic Policy

# Economic policy 'is in labour's interests'

(49) BD 25/6/96

Greta Steyn

DEPUTY Finance Minister Gill Marcus defended the macroeconomic policy package yesterday after Cosatu's blistering attack, saying the fuss had been caused by misconceptions.

But the framework remained "not negotiable" as it set broad parameters for policy that could not be shifted.

"It is up to us as government to engage the unions at all levels ... to explain to labour that our macroeconomic programme is in their interests. If more than 800 000 jobs are created, that is certainly in labour's favour," she said at a Johannesburg Chamber of Commerce and Industry lunch.

Marcus said there was a misconception that the programme was calling for "wage restraint". It was, in fact, proposing that increases be linked to productivity improvements. The challenge was productivity, rather than simple wage restraint, which was not an issue for labour alone. Training had an especially important role and government was investigating incentives.

Employment creation was the best way to change SA's skewed distribution of income. The average household income of the poorest South Africans would double in 10 years if the plan was implemented. "The greatest redistribution takes place when people are earning their own wages."

She emphasised again that government's policy was not just another document to be debated. Government had to take into account the needs of all South Africans and was not going to barter between strategy documents.

Marcus was talking before last night's top-level meeting of government, business and labour representatives to begin hammering out the future of the National Economic, Development and Labour Council (Nedlac).

Government is pinning its hopes on Nedlac to help achieve an agreement on wages and prices that should help keep a lid on inflation after the rand's depreciation, but labour and business are sceptical about this possibility.

Marcus, referring to the Nedlac planning meeting, said: "If anything, Nedlac's role will increase." She believed Nedlac had had too much on its agenda and had paid too much attention to detail which should have been the prerogative of Parliament.

She called on business to see opportunities in government's policies, saying these would lie mainly in local government partnerships. She called for a positive view of affirmative action.

# A glittering embrace

(49) CT 26/6/96

**THE GOVERNMENT'S** macro-economic strategy unveiled last week sets South Africa firmly on the path to growth and commits the ANC to an irreversible embrace of the market principle. **PATRICK BULGER** reports.

LIKE the old rock song that goes "the future's so bright, I've got to wear shades", the government's macro-economic strategy unveiled last week shows South Africa the way to a glittering future.

That it is an African National Congress plan makes it all the more remarkable. It takes no great insight into our recent history to understand why this is so.

On the political level, the strategy represents the ANC's irreversible embrace of the market principle. On the economic level it is a standard correction package of the sort the International Monetary Fund itself might have proposed.

The genesis of the conversion can be traced to President Nelson Mandela's return from a tour in Asia a year ago. At his next cabinet meeting, a committee was set up to produce a plan to create high growth and sustained prosperity.

Of course, the idea was controversial. It implied a radical overhaul of the Reconstruction and Development Programme and an adjusted economic role for the state.

The RDP said little about other vital economic aspects — such as the role of the private sector and foreign investment in creating jobs and the proper role of the ANC's trade union allies, the Congress of South African Trade Unions, in an expanding economy marked by high unemployment and a narrow skills base.

The RDP failed to galvanise society and the economy to meet the challenges and dangers ahead. Enter the Growth and Development Strategy, with little doubt the idea of Deputy President Thabo Mbeki. With the consummate skill of the political insider, Mbeki and his colleagues began putting together a multi-pronged strategy. It aimed to reverse the slide towards a business-as-usual economic approach leavened only by a handful of RDP projects.

Its other elements are the National Crime Prevention Strategy announced last week, the National Infrastructure Investment Framework and the recently-released report of the Labour Market Commission.

Just how radical a departure from earlier ANC thinking is the new economic strategy? Three examples: where the ANC and its allies previously held that a relatively large budget deficit would be needed to wipe out poverty and socio-economic backlogs, the new plan is emphatic that the deficit must be cut from 5,1% to three percent by the year 2000; where inflation fighting was previously seen as Thatcherist and anti-populist, inflation now takes its proper place as the economic saboteur it so clearly is, and, finally, where ever-increasing real wages were regarded as central to the liberation agenda, the strategy envisages a modest 0,8% real growth in private sector wages over the next five years.

If the cycle of jobless growth in which the economy found itself was the catalyst for a new approach, the recent decrease in the dollar value of the rand acted as the spur and peg upon which so much of the plan hangs.

"The depreciation presents both an opportunity and a threat," the plan notes.

"An unco-ordinated response, embroiled in conflict, will cause further crisis and contraction. Linked to an integrated economic strategy, on the other hand, it provides a springboard for enhanced economic activity," it said.

The points of difference between the ANC and its allies in Cosatu and the South African Communist Party (SACP) should be clear for all to see. Three points about this.

The first is that organised labour itself has much to gain from the plan's successful implementation. Training and skills transfer, the creation of an average of 270 000 jobs a year over the next five years and vast new export markets and cheaper goods arising from tariff reduction all redound to the workers' benefit.

Among public sector workers, the news is even better with an average 1,3% real growth in wages over the next five years. But inevitable retrenchments must be handled sensitively.

For the SACP, engaged as it is in an exercise to "roll back the market", the plan will tax its ability to dress up ideological defeats as successes.

It will no doubt succeed, pointing to the enhanced role of government investment and increased investment in parastatals. But for the SACP, the game is up. It either modernises its own thinking in the interests of serving the alliance or it hives off on its own path.

For the man in the street who has little truck with competing ideologies, the plan offers much. It promises moderately higher wages, a stable exchange rate, a stable and gradually falling real interest rate, cheaper goods and a sense of confidence in the future that will undoubtedly encourage individual entrepreneurship and saving.

The ship of the economy has been turned 180° and is now headed out to the deep blue waters which both promise and threaten much. Another currency crisis or a failure of political direction could blow "SA Growth" off course. But steady seamanship could finally realise our riches and undoubted potential.

MANUEL'S MACRO-ECONOMIC FRAMEWORK

(49)

## A GOAL — NOT A FORECAST

FM 28/6/96

**Economists** agree the econometrics of Finance Minister Trevor Manuel's new macro-economic framework are sound enough. What they are debating is whether the assumptions fed into the model are credible.

Scenario projections are not a hard forecast. GDP growth of 6,1% in the year 2000 is a goal — not a prediction. It signals that government has decided to pursue a policy model that will allow it to move in that direction and make those results possible.

But, says Wits visiting professor of business economics Ronnie Bethlehem: "Whether these targets are realised will depend not just on domestic policy formulation, but on exogenous circumstances — what's happening to the world business cycle. If SA follows the world economy in an upswing, it will be a lot easier for us to reach the targets that have been set. If there is a downswing, it will be more difficult."

There are a number of variables, and some people are afraid the outcome could be jeopardised if they don't all come up to expectations. For example, the framework projects a 14 basis point jump in GDP growth, from 4,9% in 1999.

This assumes significant increases in both private and public investment. That places heavy reliance on the RDP, which may fail to deliver. And it assumes year-on-year real private investment growth of 17% in 2000.

Another reservation: can the Budget deficit be reduced to 3%? Econometrix chief economist Azar Jammine says: "This presupposes a sharp cut in government spending and/or extensive privatisation. It's open to debate whether either will be realised."

The audit to find areas of cost saving in government expenditure, including the RDP, is under way. But, predictably, while Minister of Public Enterprises Stella Sigcau's statement on privatisation gives a measure of certainty, it con-

# Mapping out a grand future for SA

(49) Sowetan 2/7/96

## A long-term economic plan expected to yield results over the next 20 years

By Sharon Chetty

OVER THE NEXT two years scientists economists industrialists, professionals and academics will work on a grand plan that is expected to provide the blueprint for South Africa's future economic success

These experts, together with a broad spectrum of people, will identify potential new markets and work out trends that will point to where our best growth areas will be

The national research and technology foresight programme was launched by the Department of Arts, Culture, Science and Technology in Johannesburg last Friday and from now on groups of dedicated professionals will ensure that the country's full potential is assessed

It will be a long-term commitment to a plan that is expected to yield results over the next 20 years

### Order and redress

According to Dr Michael Kahn, head of the task team that put the programme together, the idea is to "bring some kind of order and redress" to the field "In the past research was too fragmented," he said

A 28 person advisory board comprising representatives from government, business, labour academia and civil society will head the programme

It is headed by Telkom chief executive Dr Brian Clark and includes Denel managing director Mr JPI Alberts, Wits University research professor Professor William Makgoba, University of Cape Town vice chancellor designate Dr Mamphele Ramphela, the National Economic Development and Labour Council's Mr Javendra Naidoo and Human Sciences Research Council president Dr Rolf Stumpf

They will work with a task team that will then liaise with coordinators of different sectors which can include, for example, a combination of the informal sector and information technology, or urbanisation and transport

The various sectors that will be looked at are still to be decided as the team would like to first consider suggestions from all interested people

The foresight programme is one of three major tasks the department is undertaking

A white paper on science and technology is being worked on and, at the same time, an audit of science and technology is being done to look at South Africa's strengths and weaknesses

The results of this "stock-taking" the first to be done in the country will then influence Government policy, future investment in research and development and will also provide business and industry with an idea of the impact science and technology can make in their work

It will also help to achieve consensus on where future priorities should be for the industrial, socio-economic and service sectors, coordinate research between different players and reach agreement on how the different sectors can take advantage of existing and future technologies

The foresight programme will also take into consideration the huge social and economic needs of the country, said Dr Philemon Mjwara, a Unisa physics lecturer seconded to the four person task team

Other team members are Dr Mairead O'Driscoll of the Council for Scientific and Industrial Research and Mr Rasigan Maharaj, a project coordinator of the International Development Research Centre

One trend that is already emerging is an increase in investment in manufacturing resources, said Mjwara

"The cost of extracting gold from the earth is becoming too expensive so other areas of growth and investment must be looked for"

Some of the more obvious areas that can be looked at include tourism, or how our mineral resources can be used to maximum benefit

At the same time, the challenge is to look at how technology can fulfil South Africa's social and development needs and how high technology can be used for basic needs

Another question would be do we have the skills for the development we need?

### High crime rate

Synergy between different sectors will be investigated, for example how information technology can benefit the informal sector or how technology can help provide better security in a society beset by a high crime rate

Kahn said that historically South Africa has a good tradition of people participating in various processes, so the same should be expected of this programme

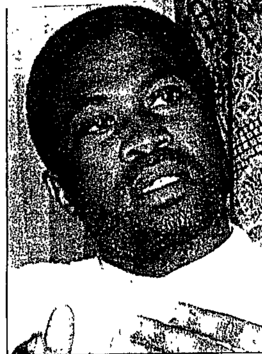
"All policy studies are tied to the Reconstruction and Development Programme We have to think about what kind of society we would like to live in and plan for that," added Kahn

Foresight programmes are commonly used by other successful industrial nations, but South Africa is the first in Africa to use such a method

Japan is considered to be the most adept at such planning and they boast a 30 percent success rate In that country intensive surveys among the science and technology community has been done since 1971 to work out technological trends

The Netherlands, United Kingdom, United States, Germany and Korea are some of the other leading nations which have used this exercise.

Kahn said there has been a five-year debate in this country over where science was going and what was happening with research and development The foresight programme was expected to sketch the big picture



**Forging the future ... task team members Dr Michael Kahn (top left), Dr Philemon Mjwara (top right) and Dr Mairead O'Driscoll (right).** PICS JOE MOLEFE

CREDIT BUREAU PROBLEM (011) 402-1238 WE CAN HELP

THE ROAD AHEAD

# SA is playing to World Bank rules

Star 2/7/96 (49)

Govt has achieved much but jobless figure dulls the gloss, reports Mike Nicol

Since 1994 when the ANC became the effective government – despite the Government of National Unity facade – it is economist Bruce Cameron's contention that the South African economy has been following the recommendations made in a World Bank analysis produced that year.

This report assumed that the Government would have three central aims:

- The re-establishment of growth in both living standards and per capita gross domestic product.
- The reduction of unemployment particularly among blacks.
- The narrowing of inequalities in the distribution of income and access to public services.

To achieve these objectives the report stipulated that Government would need a strategy that included:

- Rapid growth in skilled labour by upgrading the skills of semi-skilled workers.
- Shifting the manufacturing sector emphasis towards exports.
- Stimulating the employment growth through rural restructuring and encouraging small business.
- Restructuring government expenditure by raising public investment in infrastructure and public services and targeting this towards the poor communities.
- Sustainable fiscal goals as well as a monetary policy consistent with a stable inflation rate.

Despite what Cameron labels an economic response that is sometimes muddled and ambiguous and at other times retrogressive, he is convinced that the ANC is "determined and firm" in its commitment to these policies and more.

"The more," he says, "includes chiselling away at protective import barriers, gradually removing exchange controls and moving away from the policies of nationalisation towards privatisation."

Given this, Cameron believes that many key policy decisions should have gone a long way towards inspiring confidence both internally and abroad.

Cameron's apparent buoyancy is not without cautionary notes, however. There are ifs and buts throughout his analysis, influenced not least by the pressure being applied by voters who believed the ANC's electioneering promise of "a better life for all" and have not yet seen their expectations realised.

The achievement of these expectations is also dependent upon a willing and competent civil service. It is likely that in future the civil service will be characterised by what economist Stephen Friedman refers to as "pockets of efficiency, but with much incompetence, too."

As he points out, it is simply wrong-headed to write off the civil service as being in a state of collapse.

## Wrong to write off 'collapsing' civil service

"The future of the public service is not settled," he says. "Much will depend on the decisions politicians make – and how willing and able citizens are to hold their servants to account."

"Willing and able" are the key words. They imply a citizenry with a more equitable spread of wealth than is currently the case.

But unfortunately recent statistics show that internal economic discrepancies among blacks are widening, although the gap between blacks and whites is narrowing. During apartheid's last decade the richest 20% of black households saw a 40% growth in income while the buying power of the poorest 40% of black households declined by 40%.

South African author Mike Nicol

With the unemployment rate now considered to be about 40% and only one out of 10 new entrants to the labour force finding employment in the formal sector many economists are inclined to describe the current economy as, at best, stagnant.

Added to this is rural migration – estimated at some 700 000 people annually – towards the cities in search of a better life. Most of these "refugees" end up in the squatter camps, which are now an ever expanding feature of every major city in the country.

However, it is important not to see these squatter camps as symptoms of urban decay but rather of rural despair. A survey of rural settlements found that in a typical village 45% live in mud houses, 54% have "some kind of toilet facility", there is often no electricity or running water, few people are employed or self-employed, and the nearest clinic is almost 10km away.

In a study on poverty, Data Research Africa estimated that to move all poor rural people to an annual subsistence income of R4 000 about 2,8 million jobs would need to be created and retained. As the estimated population of 40 million is expected to double in the next 25 years – not counting illegal immigration, which is currently unknown and is variously put at between two and eight million – the pressures on the economic policy are severe.

In the beginning the ANC's response to the economic challenges was its Reconstruction and Development Programme – RDP, an acronym that was soon embraced by the whole country as an ideal, a key, a mantra to rescuing the nation.

Despite this the RDP office was closed down earlier this year and its fund transferred to the Minister of Finance while policy and monitoring is now the responsibility of Deputy President Thabo Mbeki's office.

"There can be little doubt that the closure of the RDP office marked a downgrading of the programme," says Dr Gavin Lewis, editor of the RDP Monitor. "Nonetheless, it would be a grave mistake to underestimate the continued significance of the RDP both in symbolic terms and as a central political plank of an ANC bent on redressing the injustices of the past even as it adopts orthodox capitalist economic policies.

## Mistake to underplay significance of the RDP

"Take the RDP seriously – it will continue to affect all our lives for at least the next three years."

He identifies three key areas where ordinary people have benefited from RDP projects: housing, education and health care. Housing is now increasing at around 4 000 low-cost units a month, primary education is being improved although there is no money to provide it free, likewise primary, preventative health care facilities are being improved, or, in many cases, established.

In addition, electrification and fresh water schemes are beginning to alter the standards of living in many villages.

"The ambitious targets initially set by the RDP White Paper have been considerably toned down," admits Lewis. "The more sober assessments now are focused on practical results, with a much greater involvement of the private sector and of the almost entirely neglected NGO sector."

In South Africa the term NGO applies to 54 000 organisations from the Institute of Race Relations to Operation Hunger. To Ann Bernstein, executive director of the Centre for Development and Enterprise, this "intricate network" makes society "richer, more effective and more compassionate".

She points to Latin American experience where NGO-municipal collaboration has become routine in local planning, primary health care, housing, garbage collection, and urban transport. And cites the North American states of New York and Massachusetts, where more people work in the non-profit sector providing social services there than in the government sector.

The implications here for finding solutions to both rural and urban problems are obvious. As Bernstein puts it, the "innovation, pluralism, diversity and robust individualism of NGOs, is an expression of the values and real needs of people in society".

# SA's GNP makes it the 41st-richest country, says World Bank report

(49)

**By Peter Fabricius**
Washington

Star 8/7/96

South Africa is the 41st-richest country in the world, measured by gross national product (GNP) per capita, according to the World Bank.

In its 1996 World Development Report, the bank estimates SA's GNP per capita as $3 040 (R13 070) in 1994, the latest year for which statistics were available.

This placed it just within the class of "upper-middle-income" countries with GNPs per capital of between $2 900 and $8 955. The bank placed SA 93rd from the bottom (41st from the top) of the world's 133 main nations, just after Mauritius (GNP per capita $3 150) and just before Brazil ($2 970).

SA's ranking apparently improved two rungs but this was due to technical reasons as two countries for which scanty figures are available were removed from the list.

SA did, however, really gain rank over Estonia, which fell from 41st to 45th, but lost rank to the Czech Republic, which, after making drastic free-market reforms, rose spectacularly from 50th to 39th place.

Gabon, with rich oil reserves, had the highest GNP per capita in Africa of $3 880, placing it 34th in the world.

Using the different yardstick of "purchasing power parity" – which takes into account what a currency can buy domestically rather than just its exchange rate with the dollar – SA's GNP per capita was higher at $5 130. But under this measure, it fell seven levels on the rankings, to 48th, because other countries' GNPs rose more.

For the first time, the annual development report measured the distribution of wealth in different nations, using the Gini index.

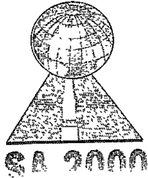
SA's Gini index was 58,4 – the third worst in the world after Brazil, with an index of 63,4, and Guatemala with 59,6.

On the Gini index, a score of 0 would mean completely equal distribution of wealth and a score of 100 would mean all the nation's wealth was in the hands of one person. However, the Gini indices were based on 1993 figures so did not reflect the redistributive efforts of the new SA Government.

# Fight is on to slay the R300 bn debt dragon

(49) CT 10/7/96

**BRUCE CAMERON takes a close look at the South African economy as we head towards the year 2000.**




SOUTH AFRICANS woke up with a shock in April to discover they had become part of the global economy. The rand had lost 20% of its value in a little under three months.

Although the South African economy during the apartheid years had been on a nasty downhill slide, it had been protected from the buffeting of international markets and the shocks had generally been less severe.

Many reasons were advanced for the collapse of the currency, from the injudicious challenge of newly-appointed Finance Minister Trevor Manuel to the "amorphous market" to rumours about President Nelson Mandela's health.

The fundamental problem simply was that the rand was over-valued. The underlying causes were the size of government debt, which is now reaching the R300-billion mark; the cost of servicing that debt; and the effects on inflation.

The government did not inherit a clean slate when it took over power in 1994. It was heir to a structurally imbalanced economy, which had been driven for 40 years by what could charitably be called a misguided and hugely unsuccessful programme of social engineering.

Apartheid resulted in massive unemployment; appallingly low living conditions for the majority of the population; a hugely uncompetitive manufacturing industry, hiding behind complex protection barriers; an increasingly heavy debt burden; low foreign and gold reserves; and an inefficient and greedy civil service.

An ANC-dominated government appeared to many by April 4, linked as it was to the Communist Party and talking populist economic theories, to be set to repeat the economic foolhardiness of the NP.

It came to power on the promise of a "better life for all" but it soon found slogans were easier than delivery. The ANC's presumptions of significant wealth to dispense disappeared rapidly as it discovered what it had inherited.

The ANC had to think again. Its response to the many economic problems has mostly been determined and firm, sometimes muddled and ambiguous and at other times retrogressive.

But it has also been expected to jump through fiery hoops like a well-trained circus animal from day one. Very little space has been given to the ANC to develop sound policies — both by the pressures of the electorate's expectations and by its local and international critics.

The increasing antipathy between organised business and labour has not helped the government in drawing up and implementing economic policy.

The ANC, maintains that, like any other government, it has a right to intervene in the economy to correct the injustices of the past.

Central to its economic policy is the Reconstruction and Development Programme. The RDP has been embraced by the country, including the ANC's political opponents, as a means of improving the lot of the wider population.

The ANC has accepted, with the unveiling of its macro-economic blueprint in June, that for the RDP to work there has to be real economic growth and this cannot be achieved with Robin Hood economics.

Much of what it is doing follows recommendations set out in a 385-page analysis of the South African economy undertaken by World Bank economists Peter Fallon and Luiz Pereira de Silva in 1994.

They assumed correctly that the new government would have three central aims:

- The improvement in living standards and growth in per capita GDP.
- The reduction of unemployment, particularly among blacks.
- Narrowing inequality in the distribution of income and access to public services.

To achieve these targets the World Bank report called for:

- The rapid growth in skilled labour by upgrading the skills of semi-skilled workers.
- Shifting the manufacturing sector emphasis towards exports.
- Stimulating employment growth through rural restructuring and encouraging small business.
- Restructuring government expenditure by raising public investment in infrastructure and public services and targeting this towards the poor and underprivileged; and restricting growth of recurrent expenditure to meet budgetary targets.
- Keeping the inflation rate stable.

The ANC has committed itself to all of this and more in the macro-economic strategy. The more includes chiselling away at protective import barriers, phasing in the removal of exchange controls, moving away from policies of nationalisation towards — at the moment — playing cat and mouse with privatisation.

It has started restructuring the budget, reducing massive military expenditure in favour of social upliftment programmes, while sticking to a commitment to gradually whittle away the enormously high debt burden now nearly R300 billion. The toying with privatisation has been initiated more by the need to tackle the debt nightmare rather than for any ideological reason.

It has started a major restructuring of labour relations, attempting, sometimes successfully and other times not, to bring along both organised labour and business — at times having to separate them by the ear lugs as they stamp their collective feet in obstinate rejection of the position of the other.

But through the imperfect National Economic Development and Labour Council (Nedlac) some progress has been made in moving towards a tripartite approach to economic development.

On the trade and industry front, Manuel, when still in charge, moved rapidly to restructure his department, bringing in much needed expertise to make industry more competitive; opening negotiations to get South Africa better international trade deals; starting new initiatives for the development of small business; taking on both unions and employers to reduce protective tariffs, and working on incentives to encourage employees to upgrade training.

His successor, Alec Erwin, still has much to do in improving the supply side of the economy while the full extent of the reforms will take a number of years to reach fruition. The proposed introduction of legislation to promote competitiveness between South African companies could prove to be Erwin's hardest nut.

Manuel has to take up an equally arduous assignment at Finance. The department needs to be revitalised and with mounting pressures for additional spending he will have to hold the fort and resist attempts to build the debt burden.

Increasingly it is becoming clear that if government wants to reduce the debt it will have to go the privatisation route. Although the government is gradually reducing the size of the annual deficit, until it reaches zero the total debt will continue to grow, as does the interest bill.

If government can slay the debt dragon the benefits will be substantial. It will increase the critically low level of national savings, making more money available for infrastructure investment, both social and industrial; it will reduce interest rates, allowing increased private sector investment and high-
er consumer demand; bring down inflation; reduce taxes; and most importantly, create greater international investor confidence.

There are still many key policy decisions to be made but the general direction taken so far should inspire greater confidence both internally and abroad than has been evident so far. The question in the short term will be whether the government can deliver more effectively on its undertakings and whether in the medium term it will continue to resist populist economic measures that will undermine sustainable long-term growth.

The macro-economic strategy provides evidence that the will is there.

# Expert Ramos a 'welcome selection' as D-G of finance

By Karin Schimke
Political Staff

Maria Ramos, new director-general of finance, is respected and acknowledged, even internationally, as an expert in her field, Gauteng MEC Jabu Moleketi said after her appointment.

Speaking passionately about the "welcome selection" of 37-year-old Ramos, Moleketi said he was convinced of her capabilities not only because of his own experience with her, but because she was spoken of highly by many people.

"She is unique in that, unlike others usually appointed to that kind of position, she has had links not only with the private sector, but also with the developmental sector of the country.

"She has been deeply involved in economic and developmental debates in South Africa since before the 1994 elections and has come face to face with South Africa's economic challenges.

"She does not deal simply with issues from an abstract position, but is concerned about meeting the basic needs of people."

Ramos is the first woman to hold the position of finance director-general, following the early retirement of Estian Calitz at the end of May.

Earlier this year, her name came up as a possible replacements for Alec Erwin as deputy finance minister.

The post was ultimately filled by ANC executive Gill Marcus. Moleketi said this was a clear political statement that finance was not just "an old boys' club" and added that it was a challenge to the private sector.

The ANC has commended the Cabinet on the decision to appoint Ramos saying it gave South Africa "access to the talents of a very skilled and competent person".

Ramos was born in Lisbon in 1959 and holds an MSc in economics from the University of London. She also holds other degrees and has lectured in economics at Unisa and the University of the Witwatersrand.

She held various positions in the private sector before joining the civil service. Before her appointment last week, Ramos was deputy director-general in the finance department, responsible for financial planning.

Star 9/7/96 (49)

# No glass ceilings for our new D-G Maria

(49) Star 12/7/96

## Her interest in politics is inherited from her maternal grandfather, a member of the Portuguese Communist Party. And the ANC was the place 'where dreams could come true'

**Talented ... Maria Ramos**

**By Karin Schimke**
Political Staff

Almost everything about South Africa's new director-general of finance is remarkable. Much of it because she falls so hopelessly short of the usual stereotypes.

Soft-spoken and unassuming, Maria Ramos's body language tells you there is a self-assuredness there that is not practised or learned, but inherent. Her responses to questions are considered, but not contrived. People like her. They also think she's the best candidate for the job.

Ramos, who was born in Lisbon in 1959, was appointed South Africa's first female director-general of finance recently.

Although she says she has not thought much about the significance of her being the first woman, she has registered pleasure "because it is a very positive signal for women in the field of finance and economics; in a small way it sets a precedent which might make it easier for other women to break in".

"I have never been intimidated by any kind of glass ceiling. From the day I started working as a clerk at the Vereeniging branch (of First National Bank) I remember being so angry when I found out that the men I work with, who had started at the same time as I had but were earning more than I did for no good reason except that they were male."

Ramos' sense of outrage was what brought her to the doorstep of politics within the ANC when she started studying at the University of the Witwatersrand on a bank scholarship in 1984 after six years of working in the bank. Being from an immigrant family helped hone her anger. "As a family we were always aware of how difficult it was to live in an environment where so much discrimination was part of life."

Ramos mentions that her interest in politics may have been inherited: her maternal grandfather was a member of the Portuguese Communist Party.

"There was always a political sensitivity," she says.

At Wits, she gained what she calls a deep sense of how "fundamentally wicked the system was". She joined the ANC and found within the party an abiding sense of a future. "It was for me a party where dreams could come true. This was a country that was worth giving your life for if it came to that. There was common vision, even when things looked bad."

Ramos completed her studies with a first-class honours degree in economics in 1987 and then took them up again in 1992 at the University of London, where she completed an MSc in economics.

Her long career shows her utter dedication to her field. She lectured at Wits and at the University of South Africa, was an economics research officer at the London University and has helped the ANC bring its economics and planning offices from Lusaka to South Africa.

She took a lead in ANC economics policy formulation and was appointed to the Department of Finance in May last year as deputy director-general of financial planning.

Most recently, Ramos has been credited with much of the hard work behind the macro-economic strategy package announced by Finance Minister Trevor Manuel last month.

"I have been so lucky to be involved with the ANC. It changed my life. Looking back I have a great sense of humbleness. Not many people have had the opportunity to be involved the way I have."

Turning to economics in South Africa in 1996, Ramos says the greatest challenge for the country is job creation.

The macro-economic plan was designed precisely to address this, she says.

"Although we have experienced growth in the last two years, it has been disappointing because it has not created the amount of jobs we would have liked it to. Government had to redefine its role in economics to ensure that we save more. It had to use tax revenues in a targeted and efficient manner. It had to address the uncomfortable debt situation, because servicing our debt costs more than we would like it to. The macro-economic plan answers all of that."

However, Ramos is aware that it takes a long time to turn "this big ship" around and believes results will be seen in the next five to ten years. Her belief that South Africans are "just a little too negative" comes through when talking about this, about the rand's recent decline and about the much-discussed brain drain from the country.

She also often touches on the issue that South Africa and its people have been protected for long and need to adapt their attitude to fit in with a more competitive world market.

About the rand, she says: "It is difficult to sit and watch the currency devalue and not be able to do anything.

"But there was no point in trying to shout loudly along with everyone else who was saying 'Do this, do that'. In a crisis situation you have to give yourself time to evaluate and listen, then take action."

At the same time, Ramos believes the rand will settle at its right level.

"Our currency has never been exposed to the international capital markets, which are quite volatile. Now the rand is responding to that volatility."

The same fear of exposure to competition is what appears to afflict many South Africans who are packing for foreign shores, blaming affirmative action, she says. "Those are ill-founded fears. There is more competition in our job market, the environment is demanding and one needs sharper skills. If you are good, have the skills and the commitment and are prepared to work hard, you will find your place."

Ramos appears to have found hers and, although she spends much of her time working, she admits she loves it. When she's not working she leads a quiet life from her Killarney home where she reads novels, listens to jazz, opera and classical music, and spends time with close friends and her family.

# Shilowa's bombshell

## Cosatu rejects macro-economic framework

(44)

**A DOCUMENT drafted by the Minister of Finance and detailing the government's macro-economic framework has been slammed by Sam Shilowa, general secretary of the Congress of South African Trade Unions (Cosatu).**

Speaking at the University of the Western Cape yesterday, Shilowa called the document a "neo-liberal" plan which posed serious difficulties for the working class and the country as a whole.

He warned that if the issue was not handled correctly, it might lead to a crisis in the alliance between the ANC, the South African Communist Party and Cosatu.

The document was drafted by ANC minister Trevor Manuel.

Shilowa, who was addressing a seminar marking the South African Communist Party's 75th anniversary, said Cosatu intended drafting alternative proposals and presenting them to the government.

The Cosatu general secretary, a member of the communist party's central committee, said the framework would never have emerged from the ANC before the 1994 general elections.

The communist party and Cosatu were finding it very difficult to deal with, Shilowa said.

"It means something has gone terribly wrong that such a document is able to emerge and be on the table."

He said he intended making even harsher criticisms out of earshot of the media.

Manuel's plan rejected an expansionist monetary policy — a rejection which conflicted with the principles of the reconstruction and development programme and which would stifle the economy, Shilowa said.

The framework's commitment to loosening exchange controls was also problematic.

The government was proposing to create an investor-friendly climate without any guarantee that investors would come.

"It's the equivalent of saying there are certain sufferings we've got to accept on earth because we are hoping we are going to have a better life after death," Shilowa said.

● Historian Professor Colin Bundy also addressed the seminar, saying that the far Right had been a conspicuous casualty of recent political change.

He asked whether the socialists Left had fared any better and whether the communist party offered anything that the ANC and Cosatu did not.

Why, when ANC secretary general Cyril Ramaphosa had announced he was taking up a post on the board of New Africa Investments Limited, had the communist party not warned that it was a major step towards enrichment of a black bourgeoisie, Bundy asked. — *Sapa*

ST 21/7/96

# SACP slates Manuel's plan for economy

(49)

POLITICAL STAFF AND SAPA

Star 22/7/96

The South African Communist Party (SACP) has added its voice to growing criticism from the labour sector about the country's new macro-economic strategy announced last month.

SACP deputy secretary-general Jeremy Cronin, speaking at a seminar marking the party's 75th anniversary yesterday, said there were severe misgivings about the strategy.

His comments followed those of Sam Shilowa, of the Congress of South African Trade Unions (Cosatu), on Saturday that the strategy was "unworkable and unwinnable".

Shilowa indicated that, if the differences between the Government and Cosatu were not handled correctly, they could lead to a crisis in the ANC-Cosatu alliance.

Cronin yesterday said his party's concerns had been raised in meetings with the ANC.

The SACP was worried that the strategy was too dependent on the private sector.

He said the framework which Finance Minister Trevor Manuel had described as non-negotiable still had to be fully endorsed by the ANC and its alliance partners.

The policy could not be decided on only by "some macro economists playing on their computers".

It was part of the SACP's duty to continue building the ANC and to prevent it becoming a "rainbow" organisation that was everything to everyone and nothing to the poor and working class, Cronin said.

# Government plans won't help the poor – Cosatu

PRG 23/7/96 (49)

JOHANNESBURG. – The Congress of South African Trade Unions has attacked the government's macro-economic policy proposals

Cosatu general-secretary Sam Shilowa said the policy document failed to mention any progressive institutions, and "there can be no progressive outcome out of conservative modelling".

Cosatu assistant general-secretary Zwelinzima Vavi said the macro-economic framework would not help the poor.

It was based on the Reserve Bank's extremely conservative model, Mr Vavi said.

"We are particularly convinced... as the executive committee... that that model itself can't in any way help the poor, the working people and those who have been looking at the reconstruction and development programme to deliver social needs like houses, electricity, water, roads and infrastructure," Mr Vavi said.

Commenting on Finance Minister Trevor Manuel's statement that the macro-economic framework document was non-negotiable, Mr Shilowa said: "Cosatu says it's going to engage with the government and with the ANC... They've got to decide what their response is going to be."

In a statement, Cosatu said certain aspects of the macro-economic framework would take the country in the opposite direction of the RDP economic growth path.

"These areas include the proposals on rapidly slashing the budget deficit; contractionary monetary policy and the lifting of exchange controls; labour market policy and unemployment; investment and industrial policy; as well as trade and tariffs," said the statement

There were alternative ways to develop a macro-economic framework which would promote development, it said.

"This growth path, like most examples of development in societies undergoing reconstruction, would see redistribution, elimination of unemployment, improved labour standards and increased social spending as not just being a long-term objective of economic development, but the means by which society will attain rapid economic growth." - Sapa.

# Cosatu slates new govt framework

(49) BD 23/7/96

Kevin O'Grady

COSATU yesterday came out strongly against certain aspects of government's macroeconomic framework — slating them as "a certain recipe for economic disaster". However, the federation committed itself to "engage actively" with government and its alliance partners to find alternatives.

General secretary Sam Shilowa said the framework had been discussed at a Cosatu executive committee meeting at the weekend, at which it was agreed that certain aspects would "take us in a direction diametrically opposed to the economic growth path outlined in the RDP".

These included proposals on slashing the budget deficit, contractive monetary policy and the lifting of exchange controls, labour market policy and unemployment, and investment, industrial and trade and tariffs policy.

Cosatu believed that "whatever economic difficulties and challenges the country is facing, there are alternative ways to develop a macroeconomic framework which would be able to promote a developmental growth path".

"This growth path ... would see redistribution, elimination of unemployment, improved labour standards and increased social spending as not just being a long-term objective of economic development but the means by which society will attain rapid economic growth," Shilowa said.

This approach was the only one with a "reasonable prospect" for success. A framework based on "conservative" World Bank, IMF or Reserve Bank models were a "certain recipe for economic disaster". To be successful, an economic strategy could not rely on one party "to drive the process but must be the product of a truly national effort". This would require an active role by government, business and labour in the strategy's development, Shilowa said.

"A special onus will need to be placed on South Africans to invest massively in our economy, since any strategy which is premised solely on foreigners investing in our country, while we fail to show confidence in ourselves, is doomed to failure," he said.

The committee was currently formulating alternative proposals for further discussion with Cosatu's allies. "We are convinced that it is possible for the alliance to reach consensus on an approach."

Cosatu's response to the plan was tame compared to comments by Shilowa at a weekend SACP meeting, where he said "something has gone terribly wrong that such a document is able to emerge and be on the table".

However, Shilowa said yesterday he spoke at the meeting in his capacity as an SACP central committee member and had no bearing on Cosatu's position.

Shilowa also warned of a possible deadlock in negotiations in Nedlac's labour market chamber on employment standards legislation "unless business changes its approach". There was currently no agreement on key issues "except for the issue of child labour".

Sapa reports that Finance Minister Trevor Manuel's spokesman Jennifer Wilson said yesterday Manuel would not react publicly to Cosatu's criticism of his framework, which he had described as non-negotiable.

**Cosatu general secretary Sam Shilowa, right, addresses a news briefing on resolutions made at the union federation's recent executive committee meeting. Assistant general secretary Zwelinzima Vavi and internal relations officer Neil Coleman, left, look on.**

Picture: TREVOR SAMSON

# Community groups slam Govt plan

(49)

## 'Reliance on private enterprises to boost the economy will be at great cost', say leaders

Star 24/7/96

By Adam Cooke

Community organisations have joined Cosatu and the SACP in condemning the Government's new macro-economic plan, while business has called for the sectors to address their concerns in a structured way.

At a media conference in Johannesburg yesterday, the country's community representatives on the National Economic Development and Labour Council (Nedlac) said the Government's reliance on private enterprises to boost the economy would be at great cost.

"Government needs to kick-start the economy instead of waiting for private enterprise to do the job.

"Without Government action the marginalised will be forgotten, as will the RDP," said convener of the community sector in Nedlac, George Dor.

The community sector said the strategy did not cater for the socio-economic needs of communities, especially the disadvantaged.

The overall business convener at Nedlac, Raymond Parsons, said yesterday that there had to be a "single-minded determination" to realise the goals of the RDP.

"If the targets and goals of the macro-economic strategy are to be met by 2000, early implementation is essential

The scrutiny of investors here and abroad remains intense," he said.

**Strategy does not cater for the marginalised**

The statements come as Deputy President Thabo Mbeki tours the US trying to garner support and investment for the country.

At the weekend the SACP added its voice to growing criticism from labour about the Government's new Growth, Employment and Redistribution Macro Economic Strategy. The strategy was announced in early June.

Cosatu's Sam Shilowa said on Saturday that the strategy was "unworkable and unwinnable".

Shilowa indicated that if the differences between the Government and Cosatu were not handled correctly, they could lead to a crisis in the ANC-Cosatu alliance.

Head of Sanco's economics department, Godfrey Jack, said the community sector wished to set up a lobby group with labour to pressure the Government.

"There is an attitude creeping into Government of a non-consultative culture, especially in the Department of Finance," he said.

He added that increased fiscal spending would ensure that the marginalised would become central to the economy as a whole.

He said coping with the disadvantaged – made up of women, rural dwellers, the disabled, aged and unemployed – was only briefly mentioned in the Government strategy.

# Policy goals linked to RDP, Manuel says

(49) ARG 24/7/96

JOHANNESBURG. – The goals of the government's recently released macroeconomic framework are directly interrelated with the objectives of the Reconstruction and Development Programme, Finance Minister Trevor Manuel has said.

Mr Manuel yesterday told delegates at a United Nations Development Programme seminar at the World Trade Centre that the government was committed to the redistribution of wealth and had not abandoned the RDP.

In response to comments by Cosatu secretary-general Sam Shilowa at the weekened in which he aggressively criticised the government's strategy, Mr Manuel said the plan underlined the objectives of the RDP.

"There are direct interrelationships between what we (the government) are doing for the economy and the RDP," he said.

The government's strategy committed the economy to the privatisation of certain state assets, trade liberalisation, the abolishment of exchange controls, wage and salary restraint and fiscal discipline.

He declined to directly respond to Mr Shilowa's attack, saying that he was not as yet aware of the specific issues raised by the labour movement.

Mr Shilowa said at the SA Communist Party's 75th anniversary celebrations the government's plan was "neoliberalist" and a blueprint for profit at the expense of development.

He criticised the intentions to remove exchange controls and the commitment to reducing the budget deficit.

The strategy posed serious difficulties for the working class and was incompatible with the goals of the RDP, Mr Shilowa said. – Sapa.

# No yielding on economy

ARG 24/7/96 (49)

CLIVE SAWYER
Political Correspondent

THE government is standing firm on its macro-economic policy in spite of vehement criticism by its labour and Communist Party alliance partners.

Finance Minister Trevor Manuel has emphasised that the policy, unveiled last month, was not open for further negotiation.

His stance is to be discussed at a Cosatu leadership meeting next week. The African National Congress has refused to be drawn on the row, referring inquiries to Mr Manuel's office.

The mounting tension about macro-economic policy is the first unbridled confrontation between the alliance partners since the election, with the labour and SACP components eager to assert their views in the face of the government's determination to follow its chosen path.

Cosatu has hit out at the policy, which provides for privatisation, trade liberalisation and fiscal discipline, as out of line with the aims of the Reconstruction and Development Programme.

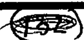
Mr Manuel told a seminar in Johannesburg yesterday that the policy was in line with the RDP.

The labour federation has been angered in particular by government endorsement of a call for a limitation on wage demands.

Whatever the domestic reaction from ANC alliance partners, the policy has been welcomed by foreign and domestic investors.

But there was a sign yesterday of continuing uncertainty about South Africa's economic future as pessimism about the country's foreign reserves and capacity to pay debts pushed the rand to just more than R4,40 to the dollar.

The Finance Ministry said yesterday the need for a separate RDP allocation had fallen away because departments and provinces would be responsible for managing funds allocated to them for reconstruction and development in the same way as other voted funds.



(49) BD 24/7/96

# Shilowa denies speculation of a showdown between Cosatu and govt

Reneé Grawitzky

COSATU general secretary Sam Shilowa yesterday dispelled speculation of a showdown with government over economic policy and reiterated that no new radical positions had been adopted on the macroeconomic plan.

Shilowa said at a business breakfast that when labour agreed with the ANC and government it was portrayed as a "conveyer belt" of government and if government appeared to support labour then labour was portrayed as running the country.

His statement to an SACP workshop at the weekend, that government's plan was unworkable, has been interpreted as representing a shift in Cosatu thinking as this contrasted with Cosatu's preliminary response to government's plan.

Shilowa said the position articulated by the federation's executive committee did not reflect a major shift.

He said this week his comments at the weekend were made in the context of his SACP membership.

However, ANC MP and SACP central executive committee member Philip Dexter said Shilowa had been quoted out of context. Shilowa had conveyed that the alliance partners had not developed an adequate response to government's plan and needed to do so.

Shilowa said Cosatu's rejection of the belief that the country could create 400 000 jobs was not based on a lack of faith in government, but rather that no guarantees of investment existed.

Labour's concerns about the policy would be discussed within the ANC and the National Economic, Development and Labour Council (Nedlac).

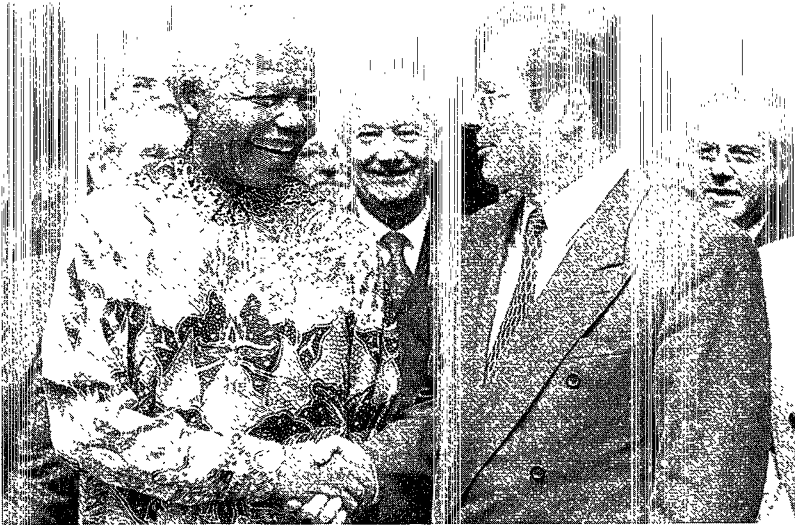
Labour's support for government was based on the belief that it had the capacity and political will to effect transformation in the country.

Sources have indicated that the ANC's national executive committee, has not yet debated the plan.

Dexter said if the plan was not negotiable "how come it is being discussed in Nedlac?" He said in a climate of tripartism there was no case for it not being open to negotiation. "If government is to govern then it will have to take on board same of its constituencies' concerns."

Organisations forming the community constituency in Nedlac — the SA National Civics Organisation, National Women's Coalition, Disabled People of SA and the National Rural Development Forum — resolved at the weekend to reject the plan on the basis that it was seen as non-negotiable and a departure from the RDP.

Comment: Page 12



President Nelson Mandela with German Foreign Minister Klaus Kinkel yesterday. Picture: TREVOR SAMSON

# SA's economic policy on right track — Kinkel

(49) BD 24/7/96

Kevin O'Grady

GOVERNMENT's new macroeconomic framework had "thrown the switches for investment and jobs", German Foreign Affairs Minister Klaus Kinkel said last night.

Sapa reports that following discussions with his South African counterpart Alfred Nzo later in the day, Kinkel and Nzo signed a DM50m contract for housing in rural areas in SA.

Speaking at an SA Institute of International Affairs meeting after his arrival in SA yesterday, Kinkel said the only path to prosperity and social progress was competitiveness on world markets and the framework, released by Finance Minister Trevor Manuel last month, was a step in the right direction.

"Competitiveness applies not only to companies but to the country as a whole, its infrastructure and education system, the dependability of its laws, the diligence of its people and adaptability of society," he said.

"In Germany, too, we are being reminded that new jobs are only created where companies invest, and today they pick the countries which offer them optimum conditions.

"President (Nelson) Mandela and the SA government have drawn the right conclusion." Although African countries were faced with "tremendous problems" such as high unemployment, housing shortages and crime and the road ahead would not be easy, "unlike a few years ago, you know it is the right one and that it is up to you to shape a better future for your country", he said.

"Moreover, your lucky star has given you a uniquely capable political leadership."

Referring to Mandela's recent state visit to Germany, Kinkel said it was "a wonderful experience for us Germans to welcome this great statesman and conciliator in our Parliament. With his friendliness and modesty, he won our hearts for himself and his country".

The way SA was dealing with its past was "exemplary" and would give the country the "confidence and perseverance needed to master the difficult transition ahead".

What mattered most to foreign investors was that crime was tackled with determination and markets further deregulated. "But progress has already been achieved in spite of all the difficulties."

"Growth rates have increased since the political transformation two years ago, inflation has been slowed down and the parliamentarians and businessmen accompanying me share my view that the springbok's leap will not be confined to the rugby field," Kinkel said.

"German government and business intend to help you make this leap forward," he said.

"Today I want to tell you that we trust in the course you have taken. You can bank on our friendship and support in difficult times," he said.

Kinkel also said he was hopeful that negotiations on a free trade area between SA and the EU would commence in the near future. Although the EU had "made heavy going of it, the offer to open our markets which is now on the table gives SA considerable opportunities".

Kinkel is in SA on the second leg of a visit to four southern African states. His first stop was Botswana, and he will visit Mozambique and Zimbabwe later in the week.

Mandela and Nzo said they had raised the role Germany could play in helping SA attain a favourable free trade agreement with the EU.

SA wants the EU to review its latest proposal, in which 38% of agricultural produce would be excluded from free trade with Europe.

Mandela and Nzo indicated that assurances in this regard had been received from Kinkel.

Mandela said he had told Kinkel SA agricultural produce was no threat to the European market because imports were on a relatively small scale and produce ripens in the European off season.

Kinkel said he was confident a solution would be found.

Nzo suggested Germany, Britain and France consider joining forces to promote SA's case in Europe.

Kinkel said Germany was interested in the SADC as an economic entity, and he welcomed its focus on economic as well as political issues.

# Praise for economic strategy

(49) ARG 25/7/96

JOHANNESBURG – The government's macro-economic strategy has received an overwhelmingly favourable response from members of the American Chamber of Commerce in South Africa.

Described as a major step forward, AmCham members said it provided clarity and direction to foreign investors who would now have a clearer picture of the country's medium and long term strategic objectives.

A recent survey conducted among AmCham members indicated that while there was deep concern regarding short term issues such as violent crime, in the long term there was much confidence in the general democratic direction taken by South Africa and its political development.

"AmCham would now like to add the economic rider to this earlier assessment and convey to the authors of the strategic plan the chambers' strong support for its stated intentions.

"It is the view of the chamber that government's economic policy document has embodied an investor-friendly and market-orientated approach to resolving the recognised structural constraints which exist in the South African economy." – Sapa.

# Economic paper under discussion

(49)

Reneé Grawitzky BD 25/9/96

KEY pillars of government's macro-economic policy document were being negotiated, SACP deputy general secretary Jeremy Cronin said yesterday.

Cronin was commenting during a briefing on the plans outlining the party's 75th anniversary celebrations over the next few days.

Cronin said one of the pillars of the strategy relating to state asset restructuring was already under negotiation. "We are not bumping into an unbending government," he said.

In clarifying the current foray around the opposition to the macro policy, Cronin said discussions at an alliance secretariat meeting yesterday revealed that robust debate within the alliance was a good thing.

Cronin and party general secretary Charles Nqakula said that the nature of the alliance had always allowed for discussion and the alliance was not about to break up because there were differences.

It was only in the unlikely situation that the ANC indicated that it was wrong to transform SA, that it would not be rational to continue the alliance.

Cronin said the party's misgivings on the plan had already been raised in bilateral meetings with the ANC. The party understood the constraints facing SA and the finance ministry. However, such a plan should be politically driven rather than by technocrats.

The plan relied heavily on the belief that if the right signals were presented, the private sector would play its part. However, Cronin said experience had shown that the private sector moved only into a growing economy, and not only when an economy was presenting the right signals.

Nqakula said the party was not implying that the document should be swept away either but rather that it should be open to interrogation.

They outlined the countrywide plans for rallies, meetings and other activities to celebrate the party's 75th anniversary. The main rally, to be addressed by President Nelson Mandela, Cosatu's Sam Shilowa and Nqakula, will be in Cape Town on Sunday.

The party was launched in Cape Town in July 1921 but was banned in 1950. The party was unbanned together with the ANC and a number of other political organisations in 1990.

GOVERNMENT ECONOMIC POLICY

(49)

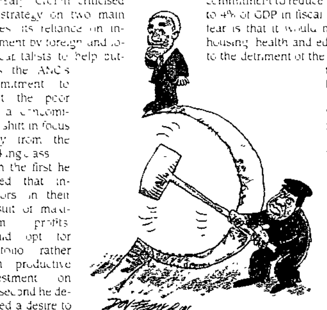
# COLLISION OR COMPROMISE?

FM 26/7/96

**The Left**, fearing the ANC may be retreating from its commitment to the poor in its rush to attract foreign investment, has launched a verbal fusillade at the macro-economic plan unveiled by Finance Minister Trevor Manuel.

After more than a month of tactical silence the SA Communist Party and Cosatu — custodians of working class interests in the ANC-led tripartite alliance — have unleashed fierce criticisms of the macro-economic strategy.

SACP deputy general secretary Jeremy Cronin went on the attack at a seminar commemorating the party's 75th anniversary. Cronin criticised the strategy on two main scores: its reliance on investment by foreign and local capitalists to help buttress the ANC's commitment to uplift the poor and a concomitant shift in focus away from the working class.



On the first he feared that investors in their pursuit of maximum profits would opt for portfolio rather than productive investment; on the second he detected a desire to relax in the "warm glow of rainbowism," instead of a determination to fulfil its commitments to the unemployed, the indigent and the homeless.

He insisted it was the SACP's duty to prevent the ANC becoming an organisation which meant everything to everybody "except the impoverished classes."

The same seminar heard an even stronger attack from Sam Shilowa, general secretary of Cosatu and a member of the SACP's central committee. Shilowa described the tabling of the macro-economic strategy as evidence that "something had gone terribly wrong in SA."

Three days later he again weighed in as Cosatu's chief. Reading a statement issued by the executive committee, he condemned the macro-economic strategy as "a certain recipe for disaster." The ANC was implicitly but unmistakably criticised for listening too attentively to the voice of capitalism as amplified by the World Bank, the IMF and the SA Reserve Bank.

A common theme in the verbal salvoes fired by the SACP and Cosatu was criticism of the macro-economic strategy's commitment to reduce the Budget deficit to 4% of GDP in fiscal 1997-1998. Their fear is that it would mean cuts in the housing, health and education budgets, to the detriment of the poor and in contravention of the RDP.

The SACP, while not disputing the need for fiscal discipline, wants to see the Budget cut less drastically. Cosatu mooted a more radical option: using funds allocated by F W de Klerk's government to bolster the Public Service Association pension fund to reduce the deficit to 3% of the GDP.

The criticism contrasts with firm defence of the macro-economic plan by Manuel and Deputy President Thabo Mbeki. Manuel has described the "fundamentals" of the strategy as non-negotiable. Mbeki has told American business moguls that the ANC-led government is determined to implement the plan to make SA a "sexy" proposition to investors. He says there is "nothing new" in the Left's opposition.

The diametrically opposed positions of the two sides imply that they are adversaries on a collision course, with disastrous consequences for the tripartite alliance. A disruptive clash will be avoided if one side shies away at the last moment or if both agree to moderate their public positions during pending discussions.

Cronin conceded that there was a "greater danger" of divergence within the alliance now that the ANC is in power and that there would be an increased capacity for "misunderstanding" if momentum was allowed to build up. He remained confident, however, that the SACP would be able to exercise its leverage to avoid a serious collision.

Shilowa, while acknowledging that the macro-economic strategy would not have "seen the light of day" before the ANC came to power in 1994, eschewed the term crisis. He preferred to describe the problem as a "difficult situation." Like his Cosatu colleagues, Zwelenzima Vavi and George Nkadimeng, he was confident it could be resolved through discussion.

But there is another, perhaps greater peril: if the ANC is seen to hesitate and compromise in the face of the verbal onslaught from the Left, potential investors, detecting vacillation rather than determination, may retreat to safer or — to use Mbeki's metaphor — sexier countries.

In that case, to quote a well-placed business observer, the MES (Macro-Economic Strategy) may easily become a MESS. ■

CLOTHING STRIKE (184) (177)

## TAKING UP THE CUDGELS (158)

**As if to** underline Cosatu's opposition to government economic policy, the SA Clothing & Textile Workers' Union (Sactwu), led by chief Cosatu strategist Ebrahim Patel, will go on strike this week demanding a 10% "package" increase in pay and benefits.

This follows the union's rejection of employers' final offer last week of an 8% increase in the annual wage negotiations. Management's opening offer was





3%, which rose to 7% at which point the union declared a deadlock. Mediation and several meetings between the two sides had failed to deliver a solution.

"The action starts on Thursday. It will be a full-blown strike," says Sactwu's national education officer Andre Kriel, adding that the 83 000-member union "will of course evaluate the situation from time to time."

*Ebrahim Patel*

The decision to strike was taken on Monday night by Sactwu shop steward councils countrywide. This followed a strike ballot conducted between July 10-16 which, in an 83% poll, registered 80% in favour of a work stoppage.

"The strike is the absolute last resort. It is unfortunate but unavoidable," says Kriel. "In view of the fact that about 2% of the 8% offered has to go to benefits, including the provident fund, the actual wage increase amounts to only R17.50."

He points out that the Supplementary Living Level (which covers the cost of the basic necessities of life), compiled by Unisa in February, was R315 a week. And "the highest qualified machinist's rate in our negotiations was already 6% below the SLL. The lowest minimum wages in Johannesburg and Durban are both 40% below the SLL," he says.

Aside from the wage increase, the union also wants improved annual bonuses, provident fund benefits, and maternity leave increased from 25% to 32% of the wage for three months since the workers are predominantly women.

"Our demand for a living wage in the clothing industry is part of our campaign to bring about equity in our society."

On the question of fierce global competition which has undercut the local textile industry, Kriel says: "The union believes it can't isolate itself from the global effects of Gatt, but economic growth in the industry can't be based on poverty wages. It should rather be based on quality work targeted for niche markets.

"We cannot compete with countries like China because their costing is based on starvation wages and child labour common in the East."

Kriel says the union is not asking for tariff protection, "but we say that tariff reduction on its own does not constitute an effective industrial policy. Tariff reduction needs to be accompanied by a range of supply-side measures and special support during the restructuring process — for example upgrading worker skills and retraining."

Sactwu maintains that government's accelerated programme of tariff reductions "cannot be done unilaterally, as all stakeholders, including labour, will have to be part of agreeing on such a programme. We support the Cosatu call for macro negotiations around broader economic policy."

Cape Town, which employs nearly half the clothing industry work force, will be most affected by the strike. Kriel says that many industries depend on the sector and the knock-on effect of the strike will be felt more widely.

Johan Baard, chief negotiator of the National Employers Caucus of the Clothing Industry, which represents 1 200 factories, has condemned the strike, saying that no-one will benefit from it.

"If unions embark on a strike, workers can expect that terms will not be dictated by them but that employers will respond by instituting various ranges of lock-out action."

Baard points out that the industry, which has been battered by cheap illegal imports in recent years leading to job losses, could not sustain a strike. ■

AFFIRMATIVE ACTION (148)

## ENGEN IN THE DOCK

FM 26/7/96

**In a watershed** case in the Cape Town Industrial Court, Engen is being accused of unfairly retrenching two white men working in human resources to make way for affirmative action appointees.

It is believed to be the first case in SA where affirmative action is being linked to retrenchment.

The applicants — Tim Overett (44) and Lari Martiny (41) — are seeking to be reinstated with backpay and want the court to order Engen to desist from future unfair selection in similar circumstances.

They are not deterred by a recent Johannesburg Industrial Court ruling that it is not an unfair labour practice to discriminate in favour of making affirmative action appointments.

They claim their retrenchment was unfair because, among other things, it did not contribute to Engen's stated objectives of streamlining the organisation and improving efficiency.

The two are among [illegible] employees Engen retrenched last year during Project Discovery, in which all existing positions in the organisation were scrapped. Everyone had to reapply in the new leaner organisational structure.

In an internal memorandum, Engen said it would use the opportunity to make significant progress in implementing its affirmative action strategy but undertook to make an exhaustive search inside the company before recruiting externally.

Martiny was the recruitment manager and Overett a compensation specialist. They claim that the correct recruitment procedures were not followed. The process "just took jobs away from loyal employees and gave them to new employees. The retrenchment never considered the necessary substantive issues of retrenchment: ability, loyalty, competency and service to the company. The only criterion was colour."

Engen denies all the accusations. It contends that it consulted staff extensively and acted with substantive and procedural fairness. Generous severance packages were granted.

During three days of cross-examination, Engen human resources GM Mpume [illegible] Tshume stuck to his explanation that the applicants were not suitable for any posts in the new structure. He defended the new black human resources incumbents against a barrage of questions in which their CVs were compared with Overett's and Martiny's.

The applicants sought to show that their posts merely underwent cosmetic changes and that the affirmative action appointees were either of a similar standard or inferior to them in terms of qualifications and experience.

The court heard that the post of training & development manager went to an old Fort Hare University contemporary of Tshume's. Martiny, whose academic qualifications are almost identical, had been a training & development manager in Engen [illegible] years before the restructuring.

The post of employment equity and recruitment manager went to a black woman whom the applicants claim lacked the required qualifications. Tshume responded that apart from her

# Striking a balance

(49) MHG (BM)

26/7-1/8/96

Cosatu's attack on the growth plan is a sign of healthy debate, not a rift in the alliance, reports **Madeleine Wackernagel**

THE government was this week keen to distance itself from the growing row over the Congress of South African Trade Unions' criticism of its growth and development strategy.

"We are not going to get embroiled in a debate through the media," said a representative for the Ministry of Finance.

But Finance Minister Trevor Manuel earlier reiterated that the parameters of the macro-economic framework "were not negotiable", giving rise to speculation that the government was headed for a showdown with the unions and a consequent break-up of the ANC-SACP-Cosatu alliance.

Such claims were quickly denied by insiders. "It was naive of Manuel to think he could get away with it without some sort of response from labour," said one. "Now the unions have had time to consider the strategy, they are airing their concerns, rightly. But there is room for debate — indeed, it is healthy and necessary. People are over-reacting."

**Hammering home his point: Sam Shilowa says South Africa should not 'sacrifice national sovereignty on the altar of profits'**

Jeremy Cronin of the South African Communist Party concurred. "Within the alliance there is very strong support for ongoing debate on macro-economic policy. Manuel has not said he is ditching the Reconstruction and Development Programme in favour of self-inflicted structural adjustment, so the alliance is not at risk. There is no major policy rift, just debate.

"Our concerns lie with the excessive fiscal constraints in the government's strategy, a policy of low inflation and high interest rates will squash growth. In addition, it is overly dependent on private-sector investment, we would like a greater public sector role with backing from the market.

"But the strategy has to be flexible, situations change constantly. Already, the Budget deficit is at 5,9% of gross domestic product, against a target of 4% for 1996-97. So one can't take a rigid approach. The reality is more fluid.

"This is not a silly argument about nationalisation versus privatisation or fiscal restraint versus lassitude but we are concerned that alternative models were not considered. There is no easy populist alternative, we understand the constraints. But equally, we need to steer a middle path."

Cosatu's Sam Shilowa echoed these concerns, but saved his most vehement criticism for the market. "We are in danger of relinquishing our national sovereignty in the sphere of economic decision making and sacrificing it on the altar of profits."

The problem for the markets was not that Cosatu criticised the growth strategy — "they would, wouldn't they" was the general assessment — but that the government should not cave in.

"As long as the government stays firm and sticks to this course, investors will not be put off," says Dennis Dykes, chief economist of Nedcor. "We've had very strong statements from the government in the past few months on policy, signalling its commitment, so people know where they stand. It's uncertainty that puts investors off."

The logical forum for ongoing debate on economic issues is the National Economic Development and Labour Council. The government is due to present its plan next month, with a report-back from the three constituencies scheduled for February 1997.

But while Manuel is certain to stick to his guns on the parameters of the plan, the details are up for negotiation, leaving plenty of room for confrontation and controversy, says an insider.

Cosatu may dig in its heels, although national strikes are not expected. "At the end of the day, we'll deal with this in a typical South African way, and thrash it out until we eventually reach an understanding."

# SACP puts pressure on business

**Lynda Loxton**

**A LEADING member of the South African Communist Party has called on the government to take tough action to stop the "investment strike" by the private sector.**

**African National Congress MP and SACP central executive committee member Philip Dexter told the *Mail & Guardian* that business seemed intent on pitting members of the ANC-SACP-Cosatu alliance against each other in a bid to break it so that it could play a dominant role in shaping economic policy.**

**Dexter said this was "extremely irresponsible and unpatriotic". It was sending a message to foreign investors that "we are not a nation of winners, but people who can't agree on anything".**

**He believes a crunch point is coming. Domestic and foreign capital are not investing "and if they do they are investing in a manner that is short-term, speculative, get-your-money-out-quickly".**

**For this reason, the SACP remains opposed to the lifting of remaining exchange controls because it could lead to capital flight.**

**SACP criticism of the government's commitment to the gradual easing of exchange controls has led to speculation that the alliance is in danger of splitting, but Dexter denied this, adding that criticism and debate were healthy and normal in the alliance.**

**"I think the policy framework is a response to the kind of squeeze that the government is feeling at the moment. It was the best response in that it was the least worst choice. It is an attempt to keep sovereignty within our country and not undermine the agenda of the ANC-led alliance.**

**"But, if we are honest, there are contradictions and those need to be resolved. There's going to be a bust-up and there is going to have to be some kind of showdown between business, labour and government.**

**"It requires the government being tough, saying to the unions, right, we agree that your wages are low and we are prepared to make a commitment, but you have got to make a commitment to productivity. Saying to business, if you don't invest in the areas that we identify, then we are going to penalise you, we are going to tax you."**

**This could harm the economy, but the present lack of investment was equally damaging and "one sometimes has to experience a little bit of pain to get better ... we have got to keep on reminding ourselves that this is not a normal economy, this is not a normal country and business in this country is not normal. It basically looks after the interests of a tiny white minority and until we break out of that and until we transform, we are going to have to go the hard route."**

# Madiba shows his allies the mailed fist

## President tells SA Communist Party and Cosatu that Manuel's economic growth plan is not up for negotiation

Star 29/7/96 (49)

By Patrick Bulger
Cape Town

President Nelson Mandela strongly endorsed Finance Minister Trevor Manuel's new economic growth plan yesterday, warning the ANC's alliance partners that the plan's "fundamentals" were not up for negotiation.

He was making a keynote address at a South African Communist Party 75th anniversary rally at Gugulethu in the Western Cape attended by about 500 people.

His speech was billed as a major statement on the state of the alliance that binds the ANC, the SACP and Cosatu.

As was expected, Mandela strongly endorsed the alliance but warned the two smaller partners that the Government had to take decisions that might not be popular with everyone.

Manuel's growth plan is based on strict fiscal discipline, privatisation and other measures aimed at attracting massive foreign investment and creating up to 400 000 jobs a year and 6% annual growth.

It has been criticised by Cosatu and the SACP for being "anti-worker and neo-liberal" and inconsistent with the government's commitment to the RDP.

But Mandela, while careful not to damage the alliance, staunchly defended the plan.

"This strategy is government policy. Its fundamentals are not up for negotiation," he told the rally which was also addressed by Cosatu general secretary Sam Shilowa.

While discussion of the plan was not "forbidden", investment was necessary. He referred to privatisation, saying: "There is no disagreement in the alliance that some of the assets should be privatised, that others should acquire strategic partners and that yet others should restructure their operations. The detail is being, and should be, settled in negotiation on a case-by-case basis.

"An impression has been created that a major clash is looming in the alliance.

"There is no such clash on the horizon.

"The staying power of the alliance is its ability to debate issues openly and frankly; and it is out of such debate that the best course is established.

"This is our experience from struggle and it will continue to guide us in the future.

"We must, however, be honest to say that there will be instances where urgent and bold decisions will have to be taken. And on that count, we shall not shirk our responsibility."

There was substantial agreement within the alliance on the RDP but a successful RDP needed jobs, a government that spent within its means and action to limit "galloping prices rises".

**Reuters** reports that Shilowa did not refer to Mandela's comments when he addressed the crowd and spoke in favour of negotiation within the alliance on the plan. He received more enthusiastic applause than Mandela did.

# Top rating agency backs SA strategy

(49) BD 31/7/96

Lukanyo Mnyanda

US RATING group Standard & Poor's endorsement of government's macroeconomic strategy has been welcomed by economists who say it is an endorsement of government policies by one of the world's major rating agencies.

AP-DJ reports S&P described the strategy as a consistent and coherent plan that could boost SA's creditworthiness if implemented successfully, despite the volatility in the currency market. S&P also threw cold water on prospects of lower-than-expected economic growth and rising inflation, saying in its July edition of Credit Week that SA had a stable political outlook. The strategy had "a market-friendly mix of fiscal discipline, exchange control reform and tax incentives".

Nedcor chief economist Dennis Dykes said the report could indicate S&P was considering rerating SA which could see it given an investment grade. "This is good news and it gives government moral support."

S&P raised SA's long-term foreign currency credit rating to double-B-plus in November last year and assigned a triple-B-plus rating to the country's rand-denominated debt. However, these ratings were just below investment rating. The latest report has raised hope that SA might make an investment grade when the agency reviews its ratings.

Rand Merchant Bank economist Rudolf Gouws said: "This is excellent. It's exactly what government needs."

The report would bolster investor confidence and could see SA obtaining better credit ratings, allowing it to borrow on lower interest rates. "Government now needs to get labour on board and follow through on its policies."

## NEWS IN BRIEF

### Pretoria strikers fired

PRETORIA — About 300 striking workers at a Pretoria metal works, who held 15 administrative staff captive in their offices for 12 hours on Tuesday, were fired yesterday morning. Management consultant Darran Ross said the workers had ignored an ultimatum to return to work. Management would not negotiate further.

### Overspending claim

PIETERSBURG — The NP in Northern Province claimed yesterday that the provincial government had spent about R14m too much in recent property deals. NP MPL Burger Lategan said government had bought a building in Pietersburg for R18,6m, but the true value of the property was no more than R7m. Government had also bought a block of townhouses for R11,5m, worth about R2m less.

### Boeing blows engine

THE SAA Boeing which transported the SA team to the Atlanta Olympic Games blew an engine en route to Johannesburg from London carrying 185 passengers yesterday. Spokesman Leon Els said there had been a "technical problem with one of the engines, but this has already been repaired".

### Policeman in court

PORT ELIZABETH — Supt Johannes Gerhardus Visser, 42, of the SAPS information systems department at police headquarters in Pretoria, appeared in the Port Elizabeth Regional Court yesterday after he and a colleague were arrested for raiding telephone booths in the Eastern Cape.

REPORTS: Sapa, Business Day Reporters.

# SA does badly in economic survey

BD 1/8/96 (49)

Lukanyo Mnyanda

SA HAS fared badly in a new international competitiveness report for not spending enough on developing its human resources, bringing up the tail end in a 46-country survey.

This emerged from the latest SA Competitiveness Monitor 1996 by the SA branch of US-based WEFA econometric consultancy.

The group measured competitiveness in eight categories and found SA's performance in five was lower than the average for developing countries. "In respect of its people (matters such as literacy rate, skills and labour productivity) SA came stone last," it said. On domestic economic strength and management performance, SA fared slightly better, ranking 44th and 40th.

The group said SA was likely to obtain high returns if it invested resources into uplifting the skills of its work force. Upgrading 1% of the (black) work force's skills to the level enjoyed by whites could translate to a 2% jump in GDP growth.

SA compared "relatively favourably" with developing countries in scientific and technological capabilities and the quality of its infrastructure. But it still lagged behind developed and newly industrialised countries.

SA's productivity levels fared reasonably well against other developing countries. However, this did not correspond to the country's performance in average living standards.

This could be attributed to SA's serious unemployment, a factor considered in living standard but not productivity comparisons, the report said.

It was critical of the export performance of SA manufacturing industry and said the sector needed strong internal competition to improve the standard of manufactured goods.

World trade had expanded much faster in industries which dominated SA's imports, rather than its exports.

Countries like SA with abundant natural resources often developed a dependence on these resources. "Competitive advantage nowadays depends on rapid innovation and improvement rather than on static advantages."

The report also identified low SA saving and investment levels as one of the major obstacles to improving its competitive performance. SA had the lowest investment rate in 1994, dropping from 30,8% in 1980 to 15,1%.

SA's domestic saving rate had also decreased from 39,1% in 1980 to only 19% in 1994 when it was only about half the rates of Indonesia, Korea and Malaysia.

# Anglovaal joins exodus from CBD

Lukanyo Mnyanda

MINING and industrial group Anglovaal yesterday joined the exodus from the Johannesburg CBD, with its industrial and corporate division's senior management moving into new premises in Rosebank.

However, the group's mining sector would remain at its Main Street headquarters, a spokesman said yesterday.

The group would be taking up a 4 000m² building — costing "just under R30m" — at the corner of Bolton Road and Bath Avenue.

The spokesman said Anglovaal's leases in city centre buildings, used to accommodate staff overflow from the Main Street premises, had matured. It was decided to concentrate the mining division staff in the two fully occupied Main Street premises.

# Hanekom conditionally approves changes

Louise Cook BD 1/8/96

AGRICULTURE and Land Affairs Minister Derek Hanekom last night conditionally approved the amendment of the maize marketing scheme this year, sources said.

After a marathon meeting between the maize advisory committee and the SA Futures Exchange — under the auspices of the minister — a source said Hanekom told the meeting he would approve changes to the scheme if the written submission from the committee reflected agreements made at the meeting.

These apparently boiled down to placing a 3,3-million tons cap on exports, doing away with automatic opening of export pools by the Maize Board, going with a floor price of R490/ton net to farmers and opening a new export pool if the price to the farmer threatened to drop below R490/ton.

Yesterday's special meeting was also attended by the SA Futures Exchange agricultural markets division, banned from previous meetings.

A furore broke out in the maize industry when Safex GM John Wixley accused the committee and the Maize Board of interfering in the market. He warned the exchange could close after trade in maize futures contracts came to a halt in July. "Effectively this would mean the end of a free market in agriculture."

However, District Securities Bank markets manager Ika van Niekerk said Safex would have an easier run next year in a free market.

The maize advisory committee and Safex were not available for comment after the meeting.

# Why measuring competitiveness is an inexact science

(49) CT (BR) 1/8/96 (180)

By Christo Volschenk

The International Institute for Management Development, a business school in Lausanne, Switzerland, and the World Economic Forum, also based in Switzerland, had a scrap late last year which ended in divorce.

The organisations parted company, but the breakup had positive consequences. It reminded international businessmen and policymakers that the forum's annual ranking of economies according to their competitiveness has always had shortcomings.

In fact, measuring competitiveness is no exact science

For eight years the institute published the annual World Competitive Report on behalf of the forum. When their ways parted, each decided to publish its own ranking of country competitiveness.

The forum called its ranking the Global Competitiveness Report and the institute called its publication the World Competitiveness Report

Both institutions define competitiveness in broadly the same way as the ability of an economy to create wealth (to grow) and improve the living standard of its people.

The two institutions used almost exactly the same criteria for measuring competitiveness and yet they came up with completely different rankings because they used different weightings for the same eight criteria

For instance, the institute put the US on top of its list of 46 countries as the most competitive country. The forum gave the US the fourth position and ranked Singapore as the most competitive economy with Hong Kong and New Zealand in second and third positions.

The institute put New Zealand at 11 in its ranking It also put Germany, the powerhouse of Europe, in 10th position while the forum gave it the 22nd spot on its list of 49 countries.

Many more countries suffered under the divergent views of the two institutions.

> **Two rankings make it difficult to judge which countries are becoming more competitive**

For instance, the institute reckons Japan has the fourth most competitive economy in the world, while the forum feels Japan is not worth a place in the top 10 and relegated it to the 13th position.

The advent of two rankings also made it difficult to judge which countries were becoming more and which less competitive.

The institute said New Zealand slipped from ninth place last year to 11th place this year in what must be interpreted as a loss of competitiveness.

The forum, on the other hand, calls New Zealand "the new star" and promotes it from nowhere to third position.

"Reforms in New Zealand in the past decade will be widely studied and emulated in future," predicted the forum.

In short, the two lists give confusing signals which make life difficult for policymakers and dilute the value of the reports.

Fortunately, South Africa's policymakers will have no difficulty in interpreting the two reports.

The institute put South Africa 44th out of 46 countries and the forum put South Africa 43rd out of 49 countries.

Both organisations have pretty much the same message for South Africa: it is at the bottom of the heap when it comes to competitiveness.

The scrap between the forum and the institute may be important to South Africa for another reason.

It will remind local businessmen that competitiveness means different things to different analysts, that competitiveness is difficult to measure and that neither the forum nor the institute ranking is gospel.

This is important because both organisations rely heavily on the feedback of local opinionmakers in the public and private sectors to compile their annual rankings.

> **The feedback on South Africa may be tainted by previous performances**

For instance, the quality of the judicial system in protecting property rights and settling commercial disputes is a factor which is taken into account when compiling the rankings.

Since the efficiency, honesty and predictability of the judiciary cannot be measured objectively, the organisations ask local opinionmakers for their views.

Every year the institutions send long questionnaires to thousands of senior executives in the private and public sector to get views on factors which influence growth but which cannot be measured.

The feedback given may easily be tainted by previous performances by South Africa on the competitiveness rankings.

For example, when a busy senior public servant with little first-hand knowledge of our labour market is asked about the flexibility of the market, he may — consciously or otherwise — tend to fall back on the views held by the institute in previous World Competitiveness reports. This would be that our labour market is inflexible and uncompetitive.

In fact, a recent study of the International Labour Organisation found our labour market is relatively flexible when compared to other countries of similar development levels.

By doing that, the executive inadvertently sentences South Africa to another bad performance in the rankings.

In short, our performance in the rankings hinges, to a large extent, on the perceptions of local opinionmakers who may be influenced when they complete the forum and institute questionnaires by the widely accepted view that South Africa is uncompetitive.

These opinionmakers should remember that neither the forum nor the institute has found a foolproof way of measuring the competitiveness of nations.

And they should guard against unnecessary and damaging pessimism.

VS

# Cosatu insists on debating economic plan

By Anton Ferreira (49) CT (BR) 7/8/96

Johannesburg — The government may have declared its macroeconomic plan to be non-negotiable, but its allies in organised labour have yet to get the message.

Zwelinzima Vavi, the assistant general secretary of the labour federation Cosatu, said this week that continued debate over economic policy could not be silenced.

"It was announced that the framework was non-negotiable. This is unacceptable to Cosatu," he said.

"We believe that, even if there is agreement on the objectives of development, there is significant disagreement on the means by which we meet these objectives.

"It is these means which Cosatu believes should be open for public debate and negotiation," he said.

Vavi made his comments a week after Mandela told a meeting of his Cosatu and South African Communist Party allies: "This strategy is government policy. Its fundamentals are not up for negotiation."

Trevor Manuel, the finance minister, announced the macroeconomic plan in June.

Cosatu and the SACP, in a formal alliance with the ANC, condemn the macroeconomic plan as "Thatcherite" or "neo-liberal" and say it undermines the reconstruction and development programme.

David Welsh, a political scientist, said the question was whether the macroeconomic framework, generally welcomed by local and foreign investors, really was non-negotiable.

"I don't know the answer, but if there is negotiation and in the process the plan is watered down, there will be massive loss of face for the ANC which will compound the fears of investors," Welsh said.

But he said the ANC would have the greater leverage in any showdown with its leftist allies.

"For the foreseeable future there is no political niche for a workerist party in South Africa. Cosatu and the SACP know that if they broke from the alliance, it would be a one-way ticket to the wilderness."

Welsh noted that the need to consult Cosatu and the SACP had held up the implementation of key planks of ANC policy, particularly the privatisation of parastatals.

Steven Friedman, the director of the independent Centre for Policy Studies, said there was little question of the alliance breaking up, describing it as "a complicated mix of differing visions ... bound together only by common support for some general principles".

"The fundamentals of the economic blueprint may indeed not be open to discussion but the detail almost certainly is and detail can be as important as principle," Friedman said.

He said concessions to the government's labour and communist allies would not necessarily hobble South Africa's efforts to integrate with the world economy.

"Getting there partly by negotiating the route with the unions and their left allies may be far more workable than using an economics textbook as a road map," he said, citing the need to redress the heritage of apartheid.

"The realities within the alliance could lead to policy paralysis. But the fact that the alliance is unlikely to come apart could do far less damage to our economic prospects than most analysts assume — it may even enhance them." — Reuter

## Bankers' margins under pressure

# Govt will not veer off course, says Manuel

(49)
BD 13/8/96

Greta Steyn

FINANCE Minister Trevor Manuel vowed yesterday to prove wrong currency speculators who were betting that government would fail to implement its macroeconomic strategy.

Manuel was speaking after the rand took another beating, hitting a record low against the British pound and setting a new three-month low against the dollar. The currency ended yesterday at R4,5415 against the dollar and at just below R7,05 to the pound.

Manuel said the SA markets were in the throes of "a period of unease" which had been caused by several factors. These included a lack of faith in the SA government's ability to implement the tough policies proposed in its macroeconomic strategy released in June.

"We have to live with this reality, and I am not willing to take a view on where the bottom will be for the rand or what the period of the pullback is likely to be. Government will hold its course steadily throughout this period of volatility," he said.

Manuel appealed to market players to take a longer-term view, saying the implementation of the macroeconomic strategy was a process and not an event. SA was being prejudged now on issues such as fiscal policy which would take until next year's Budget to take shape. However, government had resigned itself to a difficult situation in the markets. "We are focusing on the long term, and between now and then is likely to be a spiky path."

He said the present nervousness had caused the markets to attach too much importance to factors such as the Bank's oversold forward cover position, and the decline in the foreign exchange reserves. Other "realities" such as the reaction of players who had sustained losses in the initial run on the currency were also playing a role. He conceded that money market conditions were tight.

Asked about his discussions with Bank governor Chris Stals about interest rates, Manuel said that he would not overstep the bounds of the Bank's independence.

Bankers said yesterday their margins were under pressure and they would like to see a higher prime overdraft rate. However, they were unlikely to act without the Bank taking the lead, for fear of experiencing another furore.

Traders expect this Friday's treasury bill tender rate to be the key to whether lending rates will rise or not. However, some fear that Stals might ignore the cue from the money market, even if there is a further increase.

"He could take the view that banks' margins should be squeezed for a while," one banker said.

# Economic plan 'an improvement'

Reneé Grawitzky

BD 14/8/96 (49)

GOVERNMENT's macroeconomic strategy represented an advance on the RDP, which did not take into account current government financial constraints and represented a statement of what government wished to deliver but had not costed, Rand Merchant Bank economist Rudolph Gouws said yesterday.

Gouws told the Them & Us seminar there should not be a clash between the two documents as the macroeconomic strategy did not oppose the RDP but represented a second stage which took into account the inevitable trade-offs.

Cosatu assistant general secretary Zwelinzima Vavi said Cosatu did not consider the macroeconomic framework to be an appropriate framework for the realisation of the RDP goals.

Cosatu, he said, did not accept that the framework was non-negotiable and "there is no way that government will succeed in simply pushing its framework down our throats."

He said government was merely trying to attract investment by "saying the right things" or saying what it thought business wanted to hear.

Gouws said the rand crisis had its origins in problems with government finances and was not primarily the result of speculation.

The macroeconomic strategy was an attempt to reduce the budget deficit as the country could not continue to finance debt payments as this would eventually "take us into the hands of the IMF".

Apartheid legacies did not mean that SA could escape the hard realities facing its economy and the reality of the fiscal policy, "a mess created by the old government". It was crucial to create equity by creating opportunities and increased skills through education and training. However, growth was a prerequisite for greater equity.

SA Commercial Catering and Allied Workers' Union assistant general secretary Herbert Mkhize said equity had to come before growth.

Equity would create the incentive for growth.

Meanwhile, Saccawu members picketed outside the Parktonian Hotel, where the seminar was held to protest against the retrenchment of 120 workers by the hotel management.

The workers said they were retrenched after the hotel decided to contract out all the services including catering and housekeeping and security.

GOVERNMENT'S MACRO-ECONOMIC STRATEGY

# NOW YOU SEE IT . . .

**The money** market was teetering on a number of important psychological thresholds early this week. The shortage was approaching R9bn on Monday. And Friday's Treasury bill auction pushed the 90-day rate up 68 points to 15,99%, only one point below Bank rate — at which the Reserve Bank lends to clearing banks.

On Tuesday, at 16,8% the three-month rate on certificates of deposit was 80 points above Bank rate. This means that banks could borrow from the central bank and lend to the market at a profit.

They are constrained only by the amount of eligible paper (Treasury bills and short-dated government stock) they have to use as collateral.

*Trevor Manuel*

"When the market shortage gets to these levels, the banks find it more and more difficult to raise the collateral to borrow from the Bank," says Standard Bank treasury director John Lloyd.

When the shortage is this high, banks also face the possibility of going into default on their statutory reserve requirements.

Will liquid asset constraints lead banks to raise their rates?

"Raising rates doesn't necessarily solve the problem, because it doesn't create money. But it compensates for the costs of finding more liquid assets because banks are forced to go to institutions for them," says Lloyd.

But these are just symptoms of the distortions created when the official rate is out of kilter with the market.

Borrowers were depressed by speculation that Reserve Bank Governor Chris Stals will take the plunge and raise the Bank rate to help support the rand. But market rates will continue to climb irrespective of what Stals does (see graph).

Trying to support the rand — or at any rate maintain an orderly market — is one of the things that created the present situation, because it played a big role in reducing foreign reserves — by 9% to R10,37bn last month.

This, in turn, contributed to the money market shortage. Liquidity is affected by the level of reserves, because when capital flows out of the country, rands are sold to buy dollars, which means rands are being taken out of the market.

Money market scarcity drives up the price of accommodation to commercial banks by the Bank, reflected in the 15,99% Treasury bill rate and this, in turn, accounts for the rise in the 90-day bankers' acceptance rate to 16,25% on Thursday.

The only way to stop market rates from climbing further will be to reverse the outflows of capital. If interest rates are not to rise, the only alternative is a move on the part of government which will prove it is ready to share the burden of creating stability in financial markets.

When Finance Minister Trevor Manuel said this week that government will stay on course, it did little to reassure those who had not realised government was as yet on course.

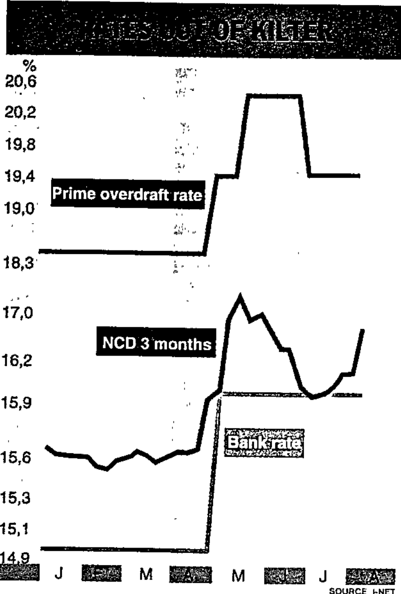
And Cosatu's reported response to the announcement fuelled scepticism. It came from assistant general secretary Zwelinzima Vavi: "There is no way that government will succeed in simply pushing its framework down our throats. It is just not possible."

Finance DG Maria Ramos says much is being done behind the scenes. She told the Council of Southern African Bankers last week: "There are a number of things in the package that are in the process of being implemented."

But Ramos concedes that "government has not had a good enough communications strategy" to keep the private sector informed on developments.

If nothing is done to remedy this, the first proof of achievement — meeting the target of 4% of GDP deficit — will only come on March 12 next year when Manuel presents the 1997-1998 Budget.

Meanwhile, Finance is echoing Stals's entreaties for people to take a longer-term view of events.



The current slogan is "Economics is not an event, it is a process"

But the markets are subdued by the short-term outlook The bond market was quiet with the government R150 trading around 15,40% on Tuesday morning Equities traded fairly firmly throughout

The Industrial index rose 27 points to 7 923, the Gold index rose about 7 points to 1 802 and the All Share index was up 23 points from Monday at 6 691

The rand was at US$/R4,5285 after reaching a three-month low of 4,5450 on Monday

"The short-term risks are very real," says Fleming Martin Asset Management MD Carmen Maynard. "The rand is virtually defenceless against another attack like the one which we saw in February

"It is difficult to take up any firm long-term position on when, for example, interest rates will start coming down or the economy will bottom out" ■

*PRIVATISATION*

## THE OUTSIDER

FM 16/8/96

**The appointment** of Hong Kong & Shanghai Bank and its SA subsidiary, Simpson McKie James Capel, to advise government on the restructuring of State assets was unexpected.

Considered by many as the outsider in the shortlist of four, selected from nearly 100 candidates, Simpson McKie beat off strong competition from Credit Suisse First Boston, Fleming Martin and the National Assets Initiative (a loose consortium including Standard Bank, Ernst & Young, Moseneke & Partners and Thebe).

*Stella Sigcau*

The appointment is for a year. Simpson McKie executive director Chris Niehaus won't be drawn on how much is involved or what his firm stands to earn, though he concedes a number of R10m has been bandied about.

The interest in the appointment — competitive advantage aside — is that privatisation (considered a key element of restructuring) is perceived to be the launch pad for SA's economic revival

Pressed to indicate which area may be treated first, Niehaus says the exercise is a blank sheet "As a first step, we have to determine what's been undertaken so far and what progress has been made"

The essential problem is that, though restructuring falls under Stella Sigcau's ministry, the assets are spread around government in general. Pulling together the initiatives launched through a variety of departments is likely to be a tall order in itself, Niehaus estimates it could take as long as four months before the HKSB Simpson task team is able to map the early developments And only then will it be possible to move to the second stage of determining future action

All in all, it seems privatisation is likely to be a process of indeterminate duration. Simpson corporate finance and marketing director Andrew Moir says the process has lasted indefinitely in other countries For example, 13 years after it was launched in the UK by then Prime Minister Margaret Thatcher, it still trundles along.

Hong Kong & Shanghai Bank is the world's biggest measured by Tier 1 assets (*Euromoney* June) and its attributable profit for first-half 1996 came in at £1,6bn

It has been involved in a wide range of recent privatisation exercises, including Ashanti Gold Fields, British Gas, and Entel, the Argentinian State-owned telephone monopoly

Privatisation urgency is one thing — and the *FM* among others is anxious for the process to start moving after years of stasis — but achieving much in a year is probably akin to expecting a miracle. The trouble is that's what the country needs. *David Gleason*

*ECONOMIES IN TRANSITION*

## WHY RUSSIA LAGS CHINA

**International** investors have sent Russia's and China's stock markets skyward this year, their indices doubling since March. Yet the two countries' economic prospects are very different, says a study of them reported in *The China Analyst*, published by the South East Asian Bank Credit Analyst Research Group

Many investors believe Russia's prospects are better than China's Russia's huge instability, they reckon, has been caused by its big bang approach to economic reform, as against China's gradualist strategy But Russia starts from a better base, they say, because its economy is more industrialised than China's

They are wrong on both counts, says the *Analyst* Before radical restructuring started in 1990, Gorbachev tried many gradualist reforms similar to China's For example, a two-track pricing mechanism was introduced in 1987 to allow State enterprises to sell their residual products at market prices after fulfilling State orders. Private agricultural production was also legalised in 1987 and foreign investment was encouraged

Yet Russia's economy lurched into "the downward spiral that continues today" Between 1988-1995, its GDP declined by 54%. Inflation, at 2 500% in 1992, still forges along at 60% a year

Meanwhile, China's economic reforms were not as gradualist as many believe, says the article

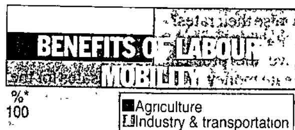
"Its rural reforms were nothing short of a big bang In 1978, China's agricultural sector was still saddled with Soviet-style farming communes. But in 1981 the Chinese started to swiftly and almost spontaneously dismantle the collectives

"By 1982, they had been eliminated and private farms and households became the country's primary basis of agricultural production."

China's still heavily agricultural economy has enabled it to perform better than Russia's, says the article. Russia's overwhelmingly urban and industrialised economy could not adapt to new demands and opportunities as quickly

"Under Russia's centrally planned economy, heavy industry was overdeveloped and skewed towards the defence sector; its light industry was largely neglected and its service industry virtually non-existent"

Worse, the labour force was highly




*Sector's changing share of total work force, 1978 - 1994
SOURCE: CHINA STATISTICS YEARBOOK & RUSSIAN FEDERATION. 1995

# IMF warning on market volatility

(49) BD 19/8/96

Simon Barber

SAN DIEGO — IMF economists are more certain of what did not trigger the attack on the rand that began last February than what did.

One thing the authors of the latest annual IMF staff report on the SA economy are sure of: SA in early 1996 bore little resemblance to Mexico in December 1994.

SA authorities, says the report, handled the surge of capital inflows that started after the 1994 elections, and amounted to R21bn last year, remarkably responsibly.

SA "performed well" on the "key test" of absorbing the increased flows "efficiently" to finance additional private fixed investment, which grew by a full percentage point of GDP last year, to 16,9%.

Spurred by rapid growth in private domestic investment, the external current account deficit rose to a substantial, but financeable, 2,6% on GDP last year, small compared with Mexico's 8% when the Tequila Crisis struck.

SA's external debt was "rather modest by world standards", and while "a significant proportion" of the inflows were short term, there had been "a determined effort" by the Reserve Bank and others to reduce short-term exposure.

"All other macroeconomic variables were moving in the right direction." Throughout last year "the authorities remained broadly on track in their efforts to reduce the fiscal deficit, allowed a limited appreciation of the rand, implemented a sterilised intervention in the spot market and reduced the net oversold forward position of the SA Reserve Bank.

## Rand appreciation

"As a result, the rand appreciated 7,7% in real terms from May last year through January this year, net reserves increased from about zero in mid-1994 to $3,5bn by end-1995, and the net forward position declined rapidly.... At the same time, authorities removed capital controls on non-residents and relaxed controls on residents.

"In sum, the direction of policies was appropriate and their achievement significant."

So what, other than rumours of President Nelson Mandela's ill-health and the imminent removal of remaining capital controls, launched the assault on the rand?

Aside from "uncertainty about the course of future policy" — exacerbated by the unexpected departure of finance minister Chris Liebenberg — factors cited in the report include the 7,7% real appreciation of the currency during the preceding months; suspicions raised by the Union Bank of Switzerland that the Reserve Bank was actively intervening to keep the exchange rate within a predetermined band, thus making it a tempting target for speculators; and the sharp increase in international long-term rates in February.

The report finds the last-mentioned theory the least compelling, given the marginal effect of rising rates on other emerging markets.

Unable to pinpoint any precise cause, the authors of the IMF's report fall back on a warning that market sentiment can be volatile and that SA had better be careful now that the sentiment can directly affect the country's macroeconomic balances, particularly through the capital account.

Shifts in sentiment, the report suggests, are likely to be felt disproportionately by SA since its foreign exchange market is "by international standards, relatively small".

IMF staff impart three pieces of advice: implement financial and structural policies that strengthen market confidence; take care that government's commitment to such policies is not called into question; ensure that markets are confident that policies will be adjusted appropriately in the face of unexpected developments.

"If uncertainties in these areas are not addressed," the report concludes, "the benefits for growth of an easing of the external financing constraint ... would be lost as a result of the associated increase in the country risk premium, and thus higher domestic interest rates."

# Belt tightening required for 6% growth

Simon Barber

SAN DIEGO — The success of government's macroeconomic strategy to achieve sustained 6% growth by 2000 will need considerable fiscal belt tightening, according to the IMF's latest annual staff report on SA.

The report, newly released but completed in May before the unveiling of the macroeconomic plan, lists a number of fiscal measures that could be taken to help raise fixed investment from the 18% of GDP projected for this year, to the 26% targeted for the 2000/2001 fiscal year.

The measures, outlined in a chapter entitled Accelerating Growth and Fiscal Policy, include major cuts in business and farming subsidies: for example, the elimination next year of export promotion, regional industrial development programmes and subsidies for Armscor which, between them, accounted for nearly 1% of GDP in 1995/96.

Subsidies for nuclear energy (but not safety) and water works, worth 0,25% of GDP, are listed as candidates for the axe in 1998/99.

Other steps are recommended for making existing government expenditure more efficient. Among these are redirecting funding away from universities to primary and secondary education, and away from the military towards police and judicial services. Teachers wages could also be "targeted" more productively, with savings going to improved infrastructure.

The report accepts the macroeconomic plan's goal of increasing foreign investment to just under 4% of GDP by 2000, but says this figure is the highest that can reasonably be expected, even though it falls far short of the 5,5% averaged before the mid-1980s.

How close SA comes to the 4% goal depends in large measure on government maintaining a credibly sustainable fiscal stance, the report stresses.

The report rejects arguments, based on the fact that the yield-to-maturity of government debt exceeds the growth rate of nominal GDP, that SA may be falling into a public debt trap.

The report contends that at current growth rates SA can avoid a public debt trap — defined as an increasing ratio of government debt to GDP — so long as revenues are outpacing non-interest outlays to generate a primary surplus of 1,5% of GDP.

"The current medium-term fiscal framework would lead to a primary surplus exceeding 1,5% of GDP by 1997/8, and assuming that the overall deficit continues to be reduced by 0,5% of GDP a year thereafter, the primary balance would show surpluses ... of 3% of GDP by the turn of the century."

Meanwhile, the projected 4% of GDP upper limit on likely foreign investment means domestic savings, now running at 15,5% of GDP, will have to rise to 22,1% to meet the 26% target for 2000.

The report advises against government, now a net dissaver of 2,7% of GDP, seeking to make a major contribution to the required total savings by raising taxes.

"In SA, any effort to raise public sector saving leads to a decline in private saving. However ... the offset is likely to be lower when expenditure cuts rather than tax hikes produce the increase in public saving."

Government could make a larger contribution to boosting net savings — of up to 1,2% of GDP in 2000 — and thereby put less of the onus on the private sector, if it was serious about implementing structural reforms, including privatisation.

Such reforms would be likely to spur private investment "by imparting greater confidence in the economy's long-term prospects" and, all else being equal, "would eventually raise the availability of foreign savings that could be channelled into the domestic economy beyond 4% of GDP".

However, even under the best of circumstances, fiscal "adjustment" will have to be a "central element of the structural reform effort to stimulate private saving, growth and employment".

# 'Neo-liberal whims' under Cosatu attack

(49) BD 19/8/96

Reneé Grawitzky

THE SACP and Cosatu at the weekend called for a macroeconomic policy that would better the lives of people and not "pander to the whims and manipulation of employers and neo-liberals".

Addressing thousands of mine workers at a rally on Saturday commemorating the 50th anniversary of the 1946 mine workers' strike, Cosatu president John Gomomo said that the macroeconomic plan was faulty and virtually denied anything approaching a positive interventionary role for the state in the economy.

SACP general secretary Charles Nqakula said that a macroeconomic policy had to ensure the betterment of the lives of South Africans and not "pander to the whims and manipulation of the bosses and neo-liberals."

He said that the case of union leaders in 1946 had not changed 50 years later where mine workers continued to be subjected to the same conditions.

Nqakula said the political situation was the only thing that had changed, where mineworkers had contributed significantly to the political breakthrough in 1994. As such, the political struggle had to continue to transform society: "We need to take full control of our programme for democratic transformation. If we do not do this, the neo-liberals will succeed in their attempt to divert us."

Nqakula said the 1946 strike established the militancy of the labour movement in SA, while "the NUM strike of 1987 was a tribute to the militancy of the 1946 strikers".

These sentiments were expressed in a memorandum presented to Chamber of Mines negotiator Frans Barker during the rally. The NUM said that August was a significant month in the history of mine workers and it was not only in 1946 that mine workers showed their muscle, but also during the 21-day strike which shook the chamber in August 1987.

The memorandum highlighted the negative effect of the single-sex hostel system, in view of the recent killings at Gold Field's East Driefontein mine, "proof of the dangers of the hostel system promoted by the chamber".

The union also raised demands relating to job security, inequality, especially of the racial variety, and the financing of education and training with emphasis on industrial relations training.

The union warned that if the chamber failed to respond within seven days the chamber would have to take responsibility for the consequences.

# Policy lacks a vision – Gomomo

Sowetan 20/8/96

(49)

By Abdul Milazi
Labour Reporter

THE Government's conservative and restrictive economic approach exposes its lack of understanding of the macro-economic policy.

This is the view of Congress of South African Trade Unions (Cosatu) president John Gomomo. He was speaking at the 50th anniversary of the 1946 African Mineworkers' Union strike at the weekend.

"The manner in which the Government addresses fiscal policy, the relaxation of exchange controls, monetary policy, the lowering of tariffs, the restructuring of public assets and the so-called flexibility in the labour market, all point to the lack of understanding of the macro-economic policy as perceived by the workers of this country," Gomomo said.

Cosatu believes in alternative measures to those proposed by the Government.

"We propose a development programme which secures for people a vision and certain prospects of raising living standards and increased employment opportunities."

Gomomo said the model and policy prescriptions followed in drafting the Government's macro-economic framework "lacked a sense of reality about the state of our economy".

He argued that economic growth could not be based on the "globalisation myths".

"Cosatu considers it irresponsible for Government's economists to deny the right of the state to deploy its fiscal policy to manage the business cycle in order to achieve stability in employment," said Gomomo.

South Africa needs an alternative view of fiscal and monetary policy to that expressed in the macro-economic framework document.

"The linkage between fiscal and monetary policy is crucial. This arises from the dual problem of managing the national debt and the control of inflation," he said

He said the macro-economic framework prohibited any intervention by the state in the economy.

"The programme of reform proposed in the document argues for a reduction in the role of the state and the deregulation of the economy, thus leaving the economy to the behest of market relations and little else."

# Cosatu 'will not march against economic policy'

By Guy Oliver CT (BR) 23/8/96 (49)

LABOUR EDITOR

Durban — Cosatu's opposition to the government's non-negotiable stance on the macro-economic strategy will not be taken to the streets by the labour federation, Sam Shilowa, the general secretary, said yesterday.

"You will not get anybody coming and marching in the streets against the government's macro-economic framework because they say it is not negotiable ... people will think you're mad ... the debate is not about whether the framework is negotiable or not ... what we need to look at are other alternatives," Shilowa told business and union delegates at Cosatu's Them and Us conference.

Shilowa said there were differences between the government and labour, and highlighted the attitude of these alliance partners towards the deficit. He said the government wished to bring the deficit down to 4 percent. The labour movement would agree with the budget deficit approach but that it must be managed that key social issues, such as health and education, do not suffer.

Shilowa said in the past that it was justified to oppose everything emanating from the regime (the National Party government) without looking at it.

"We do not have the luxury any longer ... we have a legitimate government. We cannot be locked in permanent opposition."

The establishment of a Cosatu parliamentary office enabled the movement to forge relationships with other political parties because, "we need technical alliances from time to time", he said.

But any indications that this was a shift away from the ANC by Cosatu was quickly scotched by Shilowa.

He used his recent trip to Norway as an example of how he perceived the relationship between the ANC and Cosatu.

He said the Nordic country's parliamentary leader and the leader of the nation's labour movement met each Monday to work on strategy. Shilowa asked the unionist how he managed amid criticism of such close ties.

"He said to me, we brought about change together in Norway we're not going to damn one another simply because we happen to be in power.

"I want to argue the same point. We are a movement of transformation and that movement ... is led by the ANC. Whatever our views as Cosatu, whatever our criticism against the ANC we are not in opposition to the ANC," he said.

"We are an ally to the ANC. ... Therefore the alliance will continue," Shilowa said.

# Debating the shape of the budget

CT 27/8/96 (49)

**PARLIAMENT** finally passed the national budget after months of haggling and debate. **PATRICK BULGER** takes you through the process.

THE national budget is the centrepiece of Parliament's annual activity and concerns the citizenry directly because it tells you, the citizen and taxpayer, just how your hard-earned tax rand is being used. Or misused.

The interminable debates in the chambers, which start in late summer and endure throughout the winter months and which drive some MPs to distraction, are all intended to concentrate the political mind on the R173,7-billion that then-finance minister Chris Liebenberg told Parliament the government would spend to implement its objectives.

Theoretically, Parliament and its plethora of committees are meant to take a close and critical look at the budget, in particular the separate votes to the different government departments.

And Parliament can then reject the budget, but this is unlikely because it would amount to a vote of no confidence in the majority party and its executive and would trigger an election.

So, unlike the situation in the United States where Congress can reject the president's budget and the president can then refuse to sign Congress's amended budget — leading to a "shut-down" in government — the approval of South Africa's Parliament for the budget is taken as a given.

Of course, the minority parties are free to oppose the budget or any of the separate votes to government departments. In doing so they register the strongest possible protest against the majority party's spending inclinations.

True to political form, Parliament last week finally passed the budget. In doing so it gave the nod to the executive to borrow money which it is unable to gather in taxes and other impositions on individuals and businesses. This year the government is raising loans of R28,8-billion, all of which have to be paid back, not by current generations but by our children and our grandchildren.

In other words, the government is still spending way beyond its means and, although there is now a solid commitment to spending less and gathering in more revenue, there has been a noticeable absence of calls for a "balanced budget" before borrowing which is a major political issue in the US. So where does your money go? Not surprisingly, for every R1 that the government spends, the second biggest item of expenditure goes towards servicing the loans government has had to take to bring its revenue in line with its expenditure. This year, 18,7c of every R1 goes towards debt redemption.

This is topped only by education which receives R21,2c of every R1. The remainder is spent as follows: "economic services" gets 11,4c, health gets 9,9c, welfare 9,6c, defence 7,5c, police 6,3c and housing 1,9c, and "other" gets 13,6c.

And how is the money raised? For every R1 that the government gets in, a whopping 33,4c comes from you, the individual taxpayer.

**MEN OF MONEY:** Chris Liebenberg (above), while Finance Minister, calculated that the Government would spend R173,7-billion. The DP's Ken Andrew (right) urged the government to move quickly to remove exchange controls.

Nor does the burden on individuals end there: they still contribute part of the 21,3c that comes from value added tax, part of the 6c that comes from the fuel levy and, indirectly, part of the 12,3c from companies and 5,1c from customs and excise. In addition the government raises 16,6c by taking out loans and 5,4c comes from "other" like the sale of strategic fuel stocks and the like.

This is the scenario Parliament is presented with in March and it spends nearly six months approving the breakdown.

In an indication of how the crime wave has concentrated political minds, dissenting voices were raised against the allocations made to the crime-fighting arms of government. Both the Democratic Party and the Freedom Front voted against the correctional services allocation which they said was insufficient, the NP voted against the finance vote in protest against the tax on the life assurance industry, the NP, the FF and the DP opposed the health allocation because of the Sarafina 2 débâcle in the year, the DP and FF both opposed the justice vote, the FF opposed the land affairs vote, the DP and FF voted against the public enterprises allocation, the FF came out against the public service and administration vote, the FF, the DP and the NP opposed the safety and security allocation, and the FF opposed the South African Revenue Services vote.

Perhaps the most sobering assessment of future budgets came from the ANC's Rob Davies who warned that the Government's new macro-economic strategy required further cuts in the deficit; that is, the difference between revenue and expenditure.

Davies warned that the reduction would require "stiff expenditure cuts" and he went on: "There are two possibilities that can be created by the deficit reduction target.

"First of all, it can become a spur to sharpen and make more effective reprioritisation. Secondly, if that does not happen, it will mean cuts across the board, including cuts in the areas that are priorities in terms of social delivery and redistribution."

He pointed out that the government remained as susceptible to interest rate increases as ordinary consumers. In fact, a mere one percent rise in interest rates pushes up the government's debt servicing obligations by R1-billion.

The FF's Willie Botha questioned the government's commitment to fighting crime and warned that investors would stay away from South Africa. The DP's Ken Andrew warned that economic prosperity was threatened by crime and the rand's value on world currency markets and urged the government to move quickly to remove exchange controls.

With the budget now behind it, Parliament has been freed to concentrate on its other main activity: legislation.

❑ *Patrick Bulger is the political correspondent of The Star.*

# SACP jogs debate on macro-economic strategy

(49) MtG 30/8 - 5/9/96

**Gaye Davis**

A SEARING critique of the government's macro-economic framework has come from the national political education secretariat of the South African Communist Party (SACP).

Published this month in the debut edition of the new left-wing journal *Debate*, the critique, by Langa Zita, Dale McKinley and Vishwas Satgar, amounts to a fundamental rejection of the strategy — and represents one of the first salvos in the internal debate racking the party.

They say the strategy is not a framework within which the Reconstruction and Development Programme (RDP) can be delivered and that it represents a shift to the right by the African National Congress-led government.

Noting Trade and Industry Minister Trevor Manuel's pronouncement that the framework is "non-negotiable", they say this "contradicts the basis of the alliance itself" and say it is imperative the SACP engage the ANC and its other alliance partner, labour federation Cosatu, on the future of the strategy. Consultation on the framework, they say, "was merely driven by the intention of dampening any misgivings of the alliance partners".

They are also critical of government's use of the technical skills of "mainly old order economists and the World Bank, while progressive economists in NGOs and the broader alliance were not part of the process".

Thus, they say, it was not surprising: that the framework relies on a monetarist "trickle-down approach with growth first and redistribution subject to the cake increasing in size".

By accepting the logic of deficit reduction and existing constraints, such a fiscal policy "serves middle and upper-income earners who benefit from tax reductions, while the working class have to accept wage restraint".

Arguing that South Africa's debt is low in comparison with most advanced capitalist economies and that the framework exaggerates the threat of a debt trap, they warn that the strategy's reliance on projections of relatively strong, sustained growth and foreign investment to fund social spending and increased state investment in infrastructure means it is already in trouble: "In short the broad-based growth expected by the strategy has already faltered, and therefore in order for the government to achieve the deficit reduction targets, health and education spending will have to be restrained, mainly impacting on the poor."

The strategy's plans for monetary and foreign exchange policy also come under fire. Zita, McKinley and Satgar say interest-rate policy (excessively high by international standards) effects inflation only by causing economic contraction. Instead of providing for growth, it acts as a constraint on domestic investment in housing, and on small-to-medium enterprises which can't afford loans.

And while exchange-control liberalisation is meant to create private sector investment, they say it would encourage short-term foreign investors keen only to get their money out. "Instead government policy should be directed at releasing the substantial domestic resources existing in the economy," they say.

Zita, McKinley and Satgar argue that the absence of legislated central bargaining in most sectors will lead to increased exploitation of workers, and lower wages. The proposed social accord, hinged on wage restraint for workers while middle and upper-income salaries rise, contradicts RDP goals.

An export-led growth strategy, spurred by accelerated tariff reductions, would only bring jobs in capital-intensive, high-skill sectors and see retrenchments in labour-intensive sectors. Incentives for foreign capital would undercut local industries and reduce state tax revenue.

Written as an internal discussion paper soon after the macro-economic strategy was announced, the article represents one strand of the debate raging within the SACP.

"There are different perspectives within the party," said SACP deputy secretary general Jeremy Cronin. "By and large there is a critical feeling in the party towards the macro-economic strategy, while among the grassroots there is a sense of frustration and anger.

"The official position of the party has not yet been elaborated. We want to keep the debate open, rather than shut it down."

# World Bank plan taken to heart

CT 2/9/96 (49)

SINCE 1994 when the ANC became the effective government, the South African economy has been following recommendations made in a World Bank analysis produced that year, contends economist Bruce Cameron

This report assumed that the government would have three central aims: the re-establishment of growth in both living standards and per capita gross domestic product; the reduction of unemployment, particularly among blacks, and the narrowing of inequalities in the distribution of income and access to public services.

To achieve these objectives, the report stipulated that government would need a strategy that included:

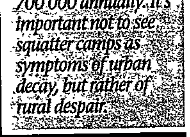
- Rapid growth in skilled labour by upgrading the skills of semi-skilled workers
- Shifting the manufacturing sector emphasis towards exports
- Stimulating the employment growth through rural restructuring and encouraging small business.
- Restructuring government expenditure by raising public investment in infrastructure and public services and targeting this towards the poor and underprivileged
- Sustainable fiscal goals and a monetary policy consistent with a stable inflation rate.

Despite what Cameron labels as an economic response that is "sometimes muddled and ambiguous and at other times retrogressive", he is convinced that the ANC is "determined and firm" in its commitment to these policies, and more.

"The 'more'," he says, "includes chiselling away at protective import barriers, phasing in the removal of exchange controls and moving away from the policies of nationalisation towards privatisation."

Given this, Cameron believes that many key policy decisions should have gone a long way towards inspiring confidence, both internally and abroad

Cameron's apparent buoyancy is not without cautionary notes, however There are ifs and buts throughout his analysis, influenced not least by the pressure being applied by voters who believed the ANC's electioneering promise of "a better life for all" and have not yet seen their expectations realised.


*The rural migration of people to the cities is estimated at some 700 000 annually. It's important not to see squatter camps as symptoms of urban decay, but rather of rural despair.*

The achievement of these expectations is also dependent upon a willing and competent civil service It is likely that in future the civil service will be characterised by what economist Steven Friedman refers to as "pockets of efficiency, but with much incompetence too"

As he points out, it is simply wrong-headed to write off the civil service as being in a state of collapse.

"The future of the public service is not settled," he says. "Much will depend on the decisions politicians make — and how willing and able citizens are to hold their servants to account."

"Willing and able" are the key words They imply a citizenry with a more equitable spread of wealth than is the case.

But, unfortunately, recent statistics show that internal economic discrepancies among blacks are widening, although the gap between blacks and whites is narrowing.

During apartheid's last decade, the richest 20% of black households saw a 40% growth in income, while the buying power of the poorest 40% of black households declined by 40%

With the unemployment rate now considered to be about 40% and only one out of 10 new entrants to the labour force finding employment in the formal sector, many economists are inclined to describe the current economy as, at best, stagnant.

Added to this is the rural migration — estimated at some 700 000 people annually — towards the cities in search of a better life. Most of these "refugees" end up in the squatter camps, which are now an ever-expanding feature of every major city in the country.

However, it is important not to see these squatter camps as symptoms of urban decay, but rather of rural despair A survey of rural settlements found that in a typical village 45% live in mud houses, 54% have "some kind of toilet facilities", there is often no electricity or running water, few people are employed or self-employed, and the nearest clinic is almost 10 km away.

In the beginning the ANC's response to the economic challenges was its Reconstruction and Development Programme — RDP, an acronym that was soon embraced by the whole country as an ideal, a key, a mantra to rescue the nation.

Despite this, the RDP office was closed down earlier this year and its funds transferred to the Minister of Finance, while policy and monitoring is now the responsibility of Deputy President Thabo Mbeki's office

"There can be little doubt that the closure of the RDP office marked a downgrading of the programme," says Dr Gavin Lewis, editor of the RDP Monitor. "Nonetheless, it would be a grave mistake to underestimate the continued significance of the RDP, both in symbolic terms and as a central political plank of an ANC bent on redressing the injustices of the past, even as it adopts orthodox capitalist economic policies.

"Take the RDP seriously — it will continue to affect all our lives for at least the next three years "

He identifies three key areas where ordinary people have benefited from RDP projects: housing, education and health care Housing is now increasing at 4 000 low-cost units a month; primary education is being constantly improved, although there is no money to provide it free; likewise primary, preventative health-care facilities are being improved, or, in many cases, established

In addition, electrification and fresh-water schemes are beginning to alter the standards of living in many villages "The ambitious targets initially set by the RDP White Paper have been considerably toned down," admits Lewis. "The more sober assessments now are focused on practical results, with a much greater involvement of the private sector and of the almost entirely neglected NGO sector."

In South Africa, the term NGO applies to 54 000 organisations, ranging from the Institute of Race Relations to Operation Hunger.

To Ann Bernstein, executive director of the Centre for Development and Enterprise, this "intricate network" of NGOs makes society "richer, more effective and more compassionate"

She points to Latin American experience where NGO-municipal collaboration has become routine in local planning, primary health care, housing, garbage collection and urban transport, and cites the North American states of New York and Massachusetts, where more people work in the non-profit sector providing social services than in the government sector

The implications here for finding solutions to both rural and urban problems are obvious. As Bernstein puts it, the "innovation, pluralism, diversity and robust individualism of NGOs is an expression of the values and real needs of people in society".

**SQUATTER CAMPS:** Because of rural despair, they are an ever-expanding feature of every major city in the country.

Continued on Page 2

# Govt expenditure cuts under attack

(49) BD 5/9/96

Tim Cohen

CAPE TOWN — The Financial and Fiscal Commission yesterday sharply criticised government's macroeconomic plan, saying expenditure was being cut too fast and would hit provinces' ability to deliver vital services.

During a presentation to the Senate finance and public accounts committees, commission director Pundy Pillay revealed hitherto unannounced targets for next year's Budget, including a "startling" projection that government revenue and borrowing would decline by 1,4% during the 1997/98 financial year.

The commission was set up to help regulate the fiscal relationship between government and the provinces. Yesterday's attack was the second time that serious tensions between the commission and the state expenditure department emerged. Last year, it attacked government's control over the provinces' budgets.

Pillay's criticism is the first sign that the provinces could buckle under the financial strain of Finance Minister Trevor Manuel's ambitious deficit targets. Manuel in June announced that government would cut its deficit to 4% of GDP from a projected 5,1% this fiscal year — instead of the original plan to cut only 0,5 percentage points.

Pillay provided the first real insight into next year's crucial Budget.

He said government's budget council had set an expenditure target for the 1997/'98 financial year of R185bn earlier this year, which compared to budgeted expenditure of R174bn for the current year.

From this total, a new procedure had been adopted whereby a "top slice" was subtracted, after which the vertical split between provincial and national was determined, Pillay said.

The "top slice" amounted to R62bn, and consisted of SA's debt servicing, a R1bn contingency fund, payments for improvements to public servants conditions of service, increases to social welfare payments and RDP carry-over costs.

The remaining R123bn had been divided between national and provincial governments by incrementally increasing existing service commitments. By this method, which the commission did not favour, the national government had been allocated R47bn and provincial governments R76bn, Pillay said.

Government was projecting a revenue decline, including borrowing, of 1,4%, which would include a modest 2% increase in the tax burden.

Pillay said that the commission had calculated that these figures taken together would mean that the real expenditure of national government departments would have to be cut by 17% and those of provincial government by about 7%.

This was inevitable because of the projected revenue decline and government's commitment to a 4% of GDP deficit.

While the commission agreed with the objectives of the macroeconomic strategy, the effect would be severe on the provision of a range of government services, including crime prevention.

By comparison, the commission's s fiscal model had assumed a 0,5 percentage point decline in the deficit every year over a five year period.

Asked why government was predicting a decline in revenue even though economic growth, albeit at a declining rate, was projected for next year, Pillay said that the problem was that figures provided by the state expenditure department were "moving targets".

"It is a real problem ... they are either incompetent or obstructive or both," Pillay said.

# 'South Africa still R250-bn in the red'

Star 12/9/96 (49)

President Nelson Mandela said yesterday it would take years before there is visible delivery in South Africa, largely because of the R250-billion national debt inherited from the former government.

Speaking on SABC television on the sixth anniversary of his release from Victor Verster prison, Mandela said capital had started to flow back into the country since the establishment of the Government of National Unity.

"We have laid down the building blocks," Mandela said, adding that the planning phase had been completed.

"Our people have realised that a new era has begun and there is hope for the future."

Mandela said the problem that there was economic growth without new jobs being created was being addressed, and new strategies were in place to create employment. Growth and development went hand in hand, he said.

Mandela reaffirmed the Government's commitment to gradually phasing out exchange controls.

He said subsidies to state enterprises should be stopped and that South Africa had to compete internationally without controls.

"We also want to increase productivity," he said.

Mandela warned workers not to think only of their own interests, saying that if they demanded high wages it would be difficult for companies to expand.

"Business must be in a position to compete internationally," he said, adding that the state must stop protecting uncompetitive industries.

Mandela said a powerful trade union movement did not have to seek the protection of the Government to stop worker abuse.

The Government would pursue anti-trust laws, Mandela said, adding it was undesirable that five conglomerates virtually controlled the stock exchange.

Mandela expressed confidence that new peace initiatives in KwaZulu Natal would work.

He said he had received maximum co-operation from King Goodwill Zwelithini and Home Affairs Minister Mangosuthu Buthelezi, in fresh attempts to bring about peace in the province.

He added that a planned gathering of traditional leaders in the province would be called as soon as possible, although organising such a meeting was not easy.

Mandela was noncommittal when asked whether he would apologise for the shooting of IFP supporters outside Shell House by ANC security members. – Sapa.

# IMF is modestly upbeat about SA

BD 27/9/(49 96

Simon Barber

WASHINGTON — While it is worried about inflation, fiscal imbalances, the weakness of the rand and unemployment, the IMF sounds a modestly upbeat note about SA short-term economic prospects in the latest release of its semi-annual publication World Economic Outlook.

The fund sticks by its projection of last April that SA will achieve 4% real GDP growth this year, while cautiously lowering its inflation prediction from 8% to 7,5%, citing "tightened monetary conditions".

In the longer term, the fund sees government's macroeconomic strategy as having "begun to set the stage for a gradual strengthening of growth performance, although unemployment will remain relatively high for some time".

The SA current account deficit is expected to stabilise at 2,5% of GDP this year and next, "reflecting the recent gains in competitiveness, the continued benefits of trade liberalisation, and strengthening domestic growth".

The government is seen as "gradually" coming to grips with the budget deficit, which is projected to fall to 4,6% of GDP in 1997 from 5,2% this year, but still well out of line with the 1,8% average the fund predicts developing countries will achieve next year.

# Union majority in favour of policy talks with govt

BD 27/9/96 (49)

Reneé Grawitzky

THE majority of Numsa regions are willing to negotiate with government about its macroeconomic policy, debate at the union congress at Kempton park showed yesterday.

Strategies for development of a universal social welfare system, job creation and the protection and restructuring of the manufacturing and service sectors should provide the basis for the talks, delegates said.

A final resolution on the matter would be adopted at the weekend.

Delegates representing Numsa's 232 000 members are hopeful union resolutions on the framework could be debated at the next Cosatu congress, and ultimately direct the course of engagement of the entire federation with government on macroeconomic strategy.

The draft resolution before Numsa's congress yesterday noted that while the union disagreed with government's macroeconomic framework and reserved its right to continue to argue against it, negotiations with government on a range of issues was possible.

General secretary Enoch Godongwana warned delegates that government had to be honest as to its economic constraints and explain why they had adopted policies in contradiction to previous ANC policies.

The establishment of a social welfare system or a "social wage" for society at large was among the issues to be discussed with government. A welfare system had to incorporate a universal health care system, public transport, retirement benefits, housing and assistance to overcome the negative effects on employment of restructuring in the form of a social plan.

Cosatu general secretary Sam Shilowa and Godongwana argued that labour should campaign for a move away from medical aid schemes.

Money ought to be redirected towards the establishment of a national health system that would benefit the majority.

Various regions said the economic policy proposed failed to take into account issues including investment policies and a position on the deficit.

Intense debate took place on privatisation, the call for an economic policy conference to properly flesh out an economic policy, and the failure of the resolution to include an ideological bias.

The future of the alliance with the ANC was also debated, with no final position being adopted.

Three regions called for disbandment of the alliance while the other six regions wanted to strengthen it, with a review of the situation in 1999.

Some of the regions wanting an end to the alliance backed endorsement of the 1993 congress resolution calling for its dissolution and formation of a worker party.

# IMF gives nod to govt's strategy

(49)
BD 30/9/96

Greta Steyn

WASHINGTON — The IMF signalled at the weekend that the rand's fall was overdone and that government was following the right strategy on easing exchange controls.

The director of the IMF's African department, Evangelos Calamitsis, said: "In our view (the depreciation) may have gone too far, although some correction was necessary."

He told reporters attending an upbeat briefing on Africa's economic prospects that it was unfortunate that SA's neighbours had suffered as a result of the sharp depreciation of the rand, "but that is part of it (structural adjustment)".

Calamitsis made it clear the fund was impressed with Finance Minister Trevor Manuel's macroeconomic strategy. He and his colleagues also said the lifting of exchange controls had to be part of an overall package of measures.

Calamitsis said the fund supported SA's gradual stance on the lifting of controls "principally because liberalisation should proceed when the risk of disruption is minimal. The new administration has been building up progressively its standing in financial markets. The wholesale abolition of controls before that process is complete, and in the absence of a general policy framework, may be premature."

A reporter took Calamitsis to task for "painting a rosy picture" of SA and his saying that the country's importance for the continent's welfare could not be over emphasised. Calamitsis denied he was being too generous in his praise for SA, or that he was underestimating the country's problems. He noted he was aware SA policies often had to be resolved with "influential" social partners, that unemployment was a terrible headache and that "security" (crime) was also a big issue, probably related to unemployment.

"SA has managed its political transition remarkably smoothly and has tried, with some success, to pursue responsible macroeconomic policies."

The spotlight at the bank/fund joint AGMs is firmly on Africa, as many countries stood to benefit from the plans to write off foreign debt that are dominating discussions.

The Bank and IMF decided on the unprecedented step of debt forgiveness when it became clear that even the star performers among the world's poorest countries had no prospect of prosperity because of their massive debt burdens.

The fund's officials were at pains to point out that Africa was emerging from the economic cold. Sub-Saharan Africa (excluding Nigeria and SA) experienced 4,5% growth in 1995 and was projected to notch up 5,5% this year with similar growth expected for next year.

The improved growth performance reflected better policies in an increasing number of African countries, rather than just "good weather". This was also clear from the inflation performance, with the rate of increase in sub-Saharan African consumer prices

Continued on Page 2

## Credit

(49)
BD 30/9/96

Continued from Page 1

"There is nothing to get excited about in these figures," Nedcor senior economist Magan Mistry said. He said that M3 growth could be attributed mainly to technical factors as it was calculated off a low base.

Credit growth was still too high but could be expected to continue on a downward trend over the next few months. Reserve Bank governor Chris Stals was, however, unlikely to cut interest rates before the end of the first quarter in 1997.

Econometrix economist Tony Twine agreed that the credit growth and money supply figures should "not cause excitement", although credit growth was still "uncomfortably high".

The fact that private sector growth was faster than money supply growth indicated that "government demand for debt is at a moderate level, for which they should be complimented".

# SA at last gains a driving seat in world economy

## *Manuel and team bask in IMF praise*

ARG 4/10/96 (49)

RICH MKHONDO
Foreign Service

**Washington – Finance minister Trevor Manuel and his entourage have left the International Monetary Fund and World Bank general meeting satisfied that South Africa has at last been fully integrated into the institutions' structures and is influencing their policy direction.**

Mr Manuel, his director-general Maria Ramos, Reserve Bank Governor Chris Stals and his deputy Thimothy Thahane, said yesterday that after two years "in transition", South Africa had been praised for its economic policies, whose aspects were part of a call at this year's meeting call for good governance and proposals to help Africa's highly in indebted countries.

"South Africa has bee heard ...There is a sense that we have a le dership responsibility," Mr Manuel said

"We now see ours ves playing a greater role in the policy formulations in a positive and interactive way."

Underlining this higher profile, South Africa is making a bid to host the annual meeting of the World Bank and the International Monetary Fund in 2003, Mr Manuel revealed at a news conference.

"The decision on 2003 will be taken in 1998," he said.

After this year's annual meeting, South Africa found itself with several leadership positions, including that of alternate chairman of the IMF/ World Bank interim committees and a high-ranking member of the Africa Group. Mr Manuel said he had been honoured with a chance to chair this year's governors' meeting.

Mr Thahane said yesterday: "For some time we were contributors in the debates, now we are active participants shaping policies for these institutions."

Mr Manuel said South Africa's political achievements remained the envy of the international financial community, which now wanted to help the country achieve an economic miracle.

"At the moment the world does not have too many good stories, and politically South Africa remains a good story. And what remains for us to do is to match this political story with similar changes in the economic environment," he said.

"We told everyone here that what we have been able to achieve politically, we will be able to achieve economically, and a lot of people believe us when we say we have the potential to do that."

Questions frequently put to Mr Manuel and his colleagues here were about privatisation, the macro-economic strategy, removal of exchange controls and crime.

"People now understand why we have embarked on a gradual implementation of privatisation policies and the macro-economic strategy," Ms Ramos said.

"They understand that there is no need for a bang-bang approach, which we may end up regretting. They understand that crime is a worldwide phenomenon which our government is getting to grips with."

She said the only pessimism they had encountered came from South African expatriates, who had said they were concerned about crime.

Mr Manuel and his entourage left Washington yesterday afternoon on an extensive tour of eight American cities to sell South Africa as a destination for investors.

For seven days, they will be wooing investors in Los Angeles, San Francisco (California), Denver (Colorado), Chicago (Illinois), Milwaukee (Wisconsin), Hartford (Connecticut), Boston (Massachusetts) and New York, and will return to South Africa next Friday.

When they return to South Africa, they will prepare to host IMF managing director Michel Camdessus. Mr Camdessus arrives in South Africa on October 17.

# Business and labour commit themselves to transformation of economy

BD 4/10/96 (49)

Reneé Grawitzky

WORKPLACE restructuring and productivity was given a boost yesterday when labour and business committed themselves to a nationwide programme which would lay the foundation for the transformation of the SA economy.

Speaking at the launch of the workplace challenge initiative — a joint Nedlac-National Productivity Institute project to address productivity and other workplace issues — Nedlac executive director Jayendra Naidoo said the initiative intended to create the environment in which people could make decisions on effecting change in the workplace.

Naidoo said that at a time when domestic markets were under pressure because of trade liberalisation, strategies had to be developed to enable industries to become internationally competitive.

In view of such realities, Nedlac's trade and industry chamber developed a programme which would help forge a partnership between labour and business to address the "historical decline" in productivity.

The workplace challenge initiative was in three phases, Naidoo said. The first two related to a series of countrywide workshops with representatives from labour, business and government. These would create a "base for dialogue on productivity". Discussion would explore industry restructuring and assist parties in designing objectives and implementation processes. The third phase would relate to the actual implementation of workplace change.

MAIL & GUARDIAN
October 11 to 17 1996

# Manuel faces flak over World Bank

(49) MG 11-17/10/96

**Protests are already being planned against a proposed World Bank loan to South Africa, writes Gaye Davis**

FINANCE Minister Trevor Manuel will face tough questions when he returns on Saturday from the joint International Monetary Fund (IMF)/World Bank annual meeting in Washington.

MPs from his own party want information about a loan South Africa — in an apparent policy turnaround — is negotiating with the World Bank, while organisations are mobilising for a campaign around the visit next week by its managing director Michel Camdessus.

Bodies strongly opposed to the IMF and the World Bank, its sister organisation, have been invited to a meeting in Johannesburg on Tuesday "to discuss possible joint activities in relation to the Camdessus visit" to raise awareness in South Africa of the role of the IMF and to stimulate debate around its policies.

They include trade unions, church groups, organisations involved in labour and economic issues as well as the South African National Civics Organisation and South African Students Congress. There is a suggestion that Camdessus be challenged to a public debate.

One of the organisers, Brian Ashley of the Alternative Information and Development Centre, said questioning of IMF and World Bank policies, which saw developing countries' economies opened by Structural Adjustment Programmes for the benefit of "elites and monopoly interests" in developed countries, had "quickly turned to protest and then mobilisation as the full horror and social costs of these policies became apparent".

Manuel said ahead of the Bank's annual meeting in Washington that talks around "a small loan of less than $100-million had begun" but added that they would not be a priority for South Africa at the meeting. Some commentators found his caution understandable given antagonism towards the bank among trade unions, NGOs and within the ANC itself.

Scant details of the loan have emerged. Reportedly around $70-million, it is intended to swell a fund geared to help industry, particularly small to medium enterprises, become more competitive.

If signed, the loan will be the first concluded between South Africa and the bank since 1965. Bank staff have been involved in making policy on a broad front since the 1990 unbanning of the liberation movements, but agreed to ANC requests not to fund the outgoing apartheid government.

"Until now the policy has been not to borrow from the IMF and the World Bank," said ANC MP Professor Ben Turok. "I would imagine that quite a few MPs would have anxieties (about the loan). We have been told on a number of occasions that borrowing usually implies conditionalities and impacts on a country's sovereignty."

The issue was "very sensitive". Both the Bank and the IMF had been keen to lend to South Africa for some years, especially since the ANC came into government. "The World Bank gives a great deal of technical advice on a broad front and two bank advisers were part of a panel that advised government on its macro-economic strategy."

But the question of South Africa borrowing money from the bank was a different matter, Turok said. Apart from conditions attached to loans and their impact on a country's sovereignty there was the question of interest rates. If South Africa borrowed at a particular rate and the rand fell further it risked falling into the kind of debt trap that had crippled Latin American economies, Turok said.

There are indications that the loan may be made in rands — an unprecedented step for the bank — and Turok said he had been assured by trade and industry director general Dr Zav Rustomjee the loan had "no strings attached".

"We must await to hear from the relevant ministers whether this loan will lead to further borrowing or not," he said. "We did not receive prior notice of this loan. People have only heard about it through the press. We have had no documentation — possibly because Parliament has been in recess. No doubt we will be given details.

"At this time we must move as a body. The ANC, government and MPs must develop positions that are sustainable and agreed. I have sufficient confidence in the ANC and MPs to believe we will sustain a good position," he said.

WORLD BANK LOAN (49)

## IRONING OUT THE DETAILS

**The finer points** of the first World Bank loan to SA are due to be discussed next week after the arrival of a bank team.

The loan is intended to give small and medium-sized exporters access to technical expertise. FM 18/10/96

Says World Bank resident mission head Judith Edstrom: "The bank will provide advisory support, maintaining a collaborative relationship with the Department of Trade & Industry.

It is still uncertain whether the loan will be denominated in rand. Mission deputy chief Junaid Ahmad says: "Loans are not generally denominated in the borrower's currency.

"However, at the request of government, we are exploring the possibility. This option has to be fully analysed and costed out."

The interest rate has not yet been set. "Traditionally," says Ahmad, "World Bank loans are made in hard currency such as the dollar. Standard repayment terms are based on country criteria like per capita income and creditworthiness.

"Bank loans are normally made for between 15 and 20 years, including a three- to five-year grace period during which only interest on outstanding loan balances is paid.

"The bank's triple A rating enables it to borrow competitively from international markets and this low rate is passed on to the borrower with the addition of a small intermediation fee. The interest on a dollar-denominated loan is about 6,9%."

Compared with the recent Yankee bond issue, the reported amount of about US$67m is trivial. The question is, why has Trade & Industry done it?

Analysts suggest a number of possible reasons.

The most obvious is government's benchmark of a 4% GDP Budget deficit. Having set that level, there is pressure to find the cheapest source of money, to get optimal value within the constraints.

And because of the World Bank's rating and the fact that it on-lends with only a simple administrative cost, it may be a cheaper source of funding for SA than international capital markets.

The second possible reason is that the loan is a pilot for other borrowing. A small loan would serve to test the political waters. Interchanges between the bank and SA tend to be ideologically charged — as evidenced by Tuesday's meeting of bodies opposed to the bank and the IMF.

The meeting was to discuss bank IMF

---

SAFEX/ACTSA RISK MANAGEMENT COMPETITION 1996

### INTO THE HOME STRETCH

**The Absa** Risk Team still leads the hedging division of the Safex/Actsa Risk Management Competition. But its lead may not be as unassailable as it seems. Performance in the hedging division is weighted by elapsed days, so that hedging accuracy becomes increasingly important as the end of the competition approaches.

As the table indicates, Dr Zuma — who have moved ahead of Gecko in the rankings — are actually behind Gecko on an unweighted basis. As the effect of the weighting increases, further shake-ups in the leader board are possible.

In the trading division, the Teddy Bears had a good week and pulled ahead of the Currie Cup Kings. Future Fundis leap back into contention and team MAL screech into the top five for the first time.

In the novice divisions, Trans African [illegible] continue to lead the hedgers with an average deviation of [illegible] [illegible] Frasers [illegible] still out [illegible]. In the trading division [illegible] with an annualised return of [illegible]. The top three novices would all be in the top five in the professional category.

The leaders in the FM Futures Reader Competition are unchanged.

The annual competition is sponsored by Rand Merchant Bank, Investec, First National Bank, Standard Corporate and Merchant Bank and the FM. ■

**THE SIXTH LAP**

| Pos | Portfolio Name | Ave Weighted Deviation % | Average Deviation % |
|---|---|---|---|
| 1. | Absa Risk Team | 0,85 | 0,29 |
| 2. | BBB | 2,88 | 0,69 |
| 3. | Dr Zuma | 4,45 | 1,09 |
| 4. | Gecko | 4,87 | 1,05 |
| 5. | Neutral ground | 6,40 | 1,47 |

| Pos | Portfolio Name | Return % | Annualised |
|---|---|---|---|
| 1. | Teddy Bears | 8,4 | 80,7 |
| 2. | Currie Cup Kings | 5,5 | 52,8 |
| 3. | Future Fundis | 2,9 | 27,8 |
| 4. | MAL | 2,7 | 25,9 |
| 5. | BOS | 2,2 | 21,1 |

# SA tackling its problems with courage – IMF

ARG 19/10/96 (49)

## *Stand-by credit is on hand*

ALIDE DASNOIS and ESTELLE RANDALL
STAFF REPORTERS

**South Africa has not asked for credit from the International Monetary Fund (IMF) – but if it were to do so, the IMF would consider the request favourably.**

This was the message from Minister of Finance Trevor Manuel and the IMF's managing director Michel Camdessus yesterday.

At a media briefing in Cape Town on the second day of Mr Camdessus' first visit to South Africa, Mr Manuel said the question of a loan had not been discussed.

Financial markets were awash with rumours yesterday that the IMF would grant South Africa credit to boost the country's gold and foreign exchange reserves ahead of a scrapping of exchange controls.

Mr Camdessus, who described himself and his colleagues as "the fire brigade" of the financial world, said South Africa "was not in a crisis situation".

But should the government decide that stand-by credit to shore up the reserves was necessary, "I believe the IMF would not have major difficulties with this," he said.

Mr Camdessus was full of praise for the Government's Growth, Employment and Redistribution strategy (Gear) announced in June.

He also said it was clear to the IMF that South Africa was committed to keeping its budget deficit under control and to continuing its privatisation programme. He said the challenge facing the Government – a 50 percent unemployment rate – was "immense".

*'You are addressing your long term problems with courage and confidence'*

"But you are addressing your long term problems with courage and confidence."

Mr Camdessus, who met President Mandela and addressed parliamentarians earlier in the day, hoped to meet representatives of the labour movement today.

At the last minute, labour and community organisations represented in the National Economic Development and Labour Council (Nedlac) decided to stay away from a meeting with him yesterday.

In a joint statement explaining their refusal, the Congress of SA Trade Unions and the SA National Civics Organisation said this was not a return to the "old boycott tactics".

They said Mr Camdessus had allocated "no more than an hour and half" to them, which was not long enough to discuss "issues of substance and fundamental differences".

"We are opposed to the IMF and their policies. But, if the South African Government wants to enter into a relationship with the IMF, labour wants to be consulted on what approach should be adopted to avoid falling into the same trap as other countries".

The IMF visit, they said, could only complicate the delicate negotiations about national economic policies.

# IMF boss says SA plan for growth is spot on

ST(BT) 20/10/96 (49)

Picture: STEVE HILTON-BARBER

UNLIKELY FELLOWS . . . Trevor Manuel and Michel Camdessus

INTERNATIONAL Monetary Fund head Michel Camdessus on Friday pledged support for South Africa's macro-economic plan, saying it was the right strategy for the country.

"We in the IMF consider that the strategies for growth, employment and redistribution which the government announced on June 14 are exactly right," Camdessus said after a meeting with President Nelson Mandela.

But unions allied to Cosatu attacked Camdessus' visit, saying the IMF's policies courted disaster.

"The IMF is not a friend of the working people or the majority of the SA people," Zwelinzima Vavi, deputy general secretary of the Congress of South African Trade Unions, told a news conference.

"Their recommendations and policies have caused disasters in many developing countries."

Camdessus backed the government's five-year economic plan which targets a lower budget deficit, economic growth increasing each year to reach 6% by 2000, and a massive increase in job creation.

Camdessus said: "I have told the president that on the basis of such a strategy the IMF stands ready to take whatever step the government would want us to take."

Asked whether the IMF would make a loan to South Africa, Mandela said: "These are matters that are under discussion. We have experts that are going into the detail of this. What is important is that we want assistance from the IMF."

Camdessus said he and President Mandela had discussed principles of co-operation.

He said although South Africa faced several challenges, most importantly an "unacceptably" high level of unemployment, it would overcome them.

He said it was clear to the IMF that South Africa was committed to keeping its budget deficit under control and to continuing its privatisation programme. The economic programme needed to be given time to be implemented. "It was only launched in June, so give it time," Camdessus said.

Finance Minister Trevor Manuel said exchange control was not on the agenda for discussions between the two parties. — *Reuter*

# SA's earnings still racially distorted

(49) Sowetan 24/10/96

## Workers poorly equipped for rapid changes taking place in the world

By Abdul Milazi

SOUTH AFRICA'S DEMOCRACY cannot survive if the majority of its people are still not equipped with the skills needed to participate in transformation and economic growth, North West premier Popo Molefe said at Sun City this week.

In a speech delivered on his behalf by MEC for finance and economic affairs Martin Kuscus at the 40th convention of the Institute of Personnel Management, Molefe said South Africa's income distribution was still racially distorted.

He said: "Workers are poorly equipped for the rapid changes taking place in the world economy.

"Small and medium enterprises are underdeveloped, while highly protected industries lower investment in research and training."

He argued that only a comprehensive approach to human resource development would reverse the crisis left by the legacy of apartheid.

Wooltru executive chairman Colin Hall said at the three-day business convention that South Africa was over-managed and grossly underled

"The old South Africa allowed us to work with mindsets of superiority with which we produced mediocre results. The new mindsets are very challenging, and the trick is leadership and not management," Hall said.

North-West premier Popo Molefe

He argued that everybody had the capacity to lead and did not have to go to Robben Island for 27 years to learn how to lead, "That's a hell of a price to pay."

South Africans had believed in too much, "counterfeit coinage" and that the coin had on its head that some people were better than others while the tail was that all people were equal.

"The South African rand in particular had whites on the head and blacks on the tail," Hall argued "The belief that says some of us are better than others needs to be seen in the light of what is being compared, whether it is athletic prowess or other ability, it depends on what the race is," he added.

# SA may need loan from IMF, says Stals

(49)

NANCY MYBURGH
FINANCIAL SERVICES EDITOR

CT(???) 24/10/96

Johannesburg — Chris Stals, the governor of the Reserve Bank, will advise the government to apply for a loan from the International Monetary Fund (IMF) if there are no signs over the next few months of South Africa's balance of payments improving.

"We don't think we really have a crisis on our hands," Stals said on Tuesday. "We think the process is already in progress to reduce the deficit on the current account.

"Should we not get evidence (of this) in the next few months, I will certainly feel the time has come for the government to approach the IMF. If there is a need to approach the IMF, I will have no problem approaching the government to do so," Stals said.

The balance of payments shows whether money is flowing in or out of the country, either from trade or investment, and by how much. The trade side is often called the current account on the balance of payments, and it was R4,6 billion in deficit in the second quarter of this year.

The kind of loan Stals would urge the government to pursue, if necessary, would be an IMF "standby" facility, which did not carry such strict conditions for economic policy decisions taken by the government as other kinds of IMF loans.

"Normally (standby loan conditions) only make sure the correction in the balance of payments will take place," Stals said.

These comments came before yesterday's release of annual consumer inflation data for last month, which showed that the CPI rose 8,4 percent, above the high range of expectations of 8,1 percent, and up from 7,5 percent for August.

"We believe the adjustment process is already working," Stals said ahead of the data.

**ECONOMY** *The policy, which has been declared non-negotiable, may require fine-tuning*

# World Bank applauds macroeconomic plan

(49) CT(BR) 30/10/96

**JAMES LAMONT**
INDUSTRIAL EDITOR

Johannesburg – The World Bank signalled the approval of the government's five-year macroeconomic policy document yesterday, but said it might need to be adjusted in the next few years

The strategy was released in June by the government.

"It is a sound economic strategy It's fiscally conservative and it is trying to address development issues," said Pamela Cox, the World Bank's South Africa director, on her first visit to the country, yesterday.

Cox said the plan, which the government has declared non-negotiable, may need fine-tuning.

The plan, which will restrict the government's budget deficit to 4 percent this year, aims to boost economic growth to 6 percent by the turn of the century and create 400 000 jobs a year. But the policy package has drawn criticism from the labour movement for overlooking social commitments.

Yvonne Tsikata, a World Bank macroeconomist, said international experience showed that macroeconomic stability, with tight monetary and fiscal policy, led to economic growth.

The World Bank, which returned to South Africa in 1991, is negotiating a loan with the trade and industry department for the development of competitiveness among small- and medium-sized businesses.

The loan, likely to be about $30 million to $60 million, would target businesses of between five and 20 employees, foster new jobs, improved productivity, cost-sharing, quality control and training, Tsikata said.

Cox said the World Bank had assured the government that it would consider denominating the development loan in rands rather than the more usual currencies of the US dollar, the Yen, Deutschmark and the French franc.

She said the government had to decide if it was cheaper to borrow in rand or foreign currency.The Bank had issued a rand-denominated loan for R100 million last week.

**WORLD VIEW** *From left, Yvonne Tsikata, Junaid Ahmed and Pamela Cox of the World Bank discuss elements of the policy which will shape South Africa's growth*

PHOTO JOHN WOODROOF

# Govt debt reaching 'dangerous' levels

(49) BD 31/10/96

Samantha Sharpe

CAPE TOWN — SA's state debt was seriously understated, suggesting that the country was "dangerously close" to falling into a debt trap, if not there already, the Board of Executors warned in its latest investment outlook.

Economic consultant Rob Lee said the most widely known or headline measurements used to calculate public-sector borrowing excluded important components of state spending.

Adjusting for the Reserve Bank's forward cover losses and the large discounts at which government stock was issued — which are currently excluded from headline measurements — the central government Budget deficit for 1995/96 was 7,1% rather than 5,8% of GDP, Lee said.

"Our projections suggest that the turnout for 1996/97 may be even higher than this at 7,6%," he said.

"Adding in the borrowing of provincial and local government gives a possible total public sector borrowing requirement of more than 8% of GDP for the current financial year."

The Budget target is 5,1%.

Lee said that SA was on the brink of falling into a debt trap where real interest rates remained high, single digit inflation was unsustainable and the prospects for attracting foreign capital very poor, a situation which called for an urgent re-evaluation of economic and fiscal policy.

Stringent cuts in public sector spending, an increase in VAT, much more rapid privatisation and the withdrawal of the Reserve Bank from the forward cover market would have to be introduced, he said, with IMF assistance sought in the implementation of such a programme.

"In the absence of such decisive action a severe economic and financial crisis is inexorably building up on the back of a rapid escalation of government debt," he said.

# Balancing SA's books

Sowetan 13/11/96

The Government's financial management has been praised by the watchdog committee on public spending but much still has to be done. **Waghied Misbach** predicts more fireworks at the next session of Parliament...

(49)

CONTRARY TO THE WIDESPREAD perception that Government leaders are poor accountants only interested in enriching themselves at the taxpayer's expense, Parliament's watchdog committee on public accounts has given the new regime a relatively positive report on its financial management.

The chairman of the joint standing committee on finance, Mr Ken Andrew, used words like "diligence" and "professionalism" when describing the general performance and attitude of the Government this year.

Coming from a veteran Democratic Party member, and vociferous critic of the new Government, that sounds like high praise.

He was "satisfied" that the work of the committee – and the work of the auditor general's office, on which it relies heavily – was having a "positive and consistent impact on financial management in the public sector".

Andrew used two yardsticks to assess Government commitment to proper financial controls: the fact that a number of departments had now formally appointed financial managers and internal auditors, and that public sector management experience was increasing at a steady rate after the departure of several of key personnel over the past two years.

"There is a high level of commitment to be a proper administration and there has been a high degree of diligence and professionalism in trying to address as rationally and thoroughly as possible public spending," Andrew said.

## Prevent further abuses

But, as the full report shows, the African National Congress-led Government still has a lot of work to do to clean up the effects of the previous administration's gross mismanagement and waste, and to have proper financial management in place to prevent further abuses.

In general, the committee found that a number of departments have been "seriously impaired" by experienced and often senior personnel taking advantage of early retirement, retrenchment and severance packages. It called for a thorough investigation of all the implications of such packages so that mistakes are not repeated.

On the Finance Department, the report noted the progress made to compile a more complete statement on Government liabilities and assets, as well as other "positive developments such as improved cash management".

However, the committee wants more rapid progress towards the management and treatment of state debt, the management and disclosure of all fixed assets, including land and buildings, and the consistent application of accounting systems.

While also noting the good work done by the Department of State Expenditure to improve budgeting for Government departments, the report called on Mr Hannes Smit, head of state expenditure, to put pressure on various departments to have adequate documentation of their spending ready by the deadline, and to address the increasing amounts of "unspent funds" that departments are rolling over.

**Finance Minister Trevor Manuel ... the parliamentary committee on public accounts wants rapid progress from his department on servicing state debt.**

On Inland Revenue, the department concerned with collecting money for the public purse, the committee said current changes were still inadequate to address "the serious state of its affairs".

The Revenue Service will only function effectively if it has administrative autonomy over its funding, staff and decision-making authority over all property, information technology and other assets.

The committee recommended that Finance Minister Trevor Manuel has legislation ready to make these changes during the first session of Parliament next year.

Some Government departments came under scathing attack for poor financial management.

The Department of Agriculture, for instance, was chastised for not having control over outstanding loans and other debts, implementing loan schemes without the necessary guidelines in place, having "substantial fruitless" spending because of poor planning and consultation when privatising one of its functions, not exercising proper audit trails so that auditors could do their work and poor control over assets.

The Transport Department also came in for some criticism. The committee called for the auditor-general to investigate why more than 43 000 properties of the National Road Fund were not registered.

This investigation will also be extended to other departments that have not registered thousands of properties.

The committee also recommended that the Transport Ministry addresses the problem of the Multilateral Motor Vehicle Accident Fund, which has a deficit of more than R6 billion in outstanding claims.

On consultants, on whom millions are spent every year, the committee expressed concern at the "apparent inability of many departments to manage them properly".

## Budgetary controls

The committee recommended that the Department of State Expenditure implement proper budgetary controls over money spent on consultants and called for a new definition of consultants in the national Treasury regulations.

The committee also expressed concern at the financial management of the National Housing Fund, which manages billions of rands for low-income housing projects.

It asked for an independent investigation into the difficulties experienced by the body, and asked for feedback by January 31.

Former Deputy Minister of Arts, Culture, Science and Technology Mrs Winnie Madikizela-Mandela will also be asked to explain why she spent more than R100 000 on an overseas trip, which included her private secretary and two bodyguards.

The trip was not sanctioned by President Nelson Mandela and Madikizela-Mandela will have to explain her actions to the committee.

While Andrew and his committee were satisfied with the Government's work, more fireworks are expected in the next session, particularly when the *Sarafina 2* issue is debated.

While perceptions may continue to differ about the new Government's performance, it is clear that at least one body is watching what happens to public money.

# Bank urges state to act over Gear

(49) CT 20/11/96 (BR)

NANCY MYBURGH
FINANCIAL SERVICES EDITOR

Johannesburg — The Reserve Bank urged the government yesterday to implement the macroeconomic policy more quickly, saying this could accelerate the pace of exchange-control liberalisation.

The move comes as the Reserve Bank faces unstinting hostility from critics who accuse it of being the main brake on the reform of exchange controls.

Timothy Thahane, a deputy governor at the Bank who has been tipped as the heir-apparent to Chris Stals, the Bank's governor, told an audience at the Islamic Bank: "There are a lot of complementary factors (to the removal of controls) and many things that can happen within a three-to-four-to-five-year period, perhaps even two years, which could lead to the abolition of the remaining exchange controls...

"Implementation of Gear (the government's Growth, Employment and Redistribution policy plan) will clearly make it easier to accelerate the removal of exchange controls."

Thahane also cast doubt on recent reports that Stals had indicated it would take four to five years to lift exchange controls completely.

"Dr Stals outlined the conditions (for the removal of controls). I think people deduced the four to five years," he said.

Stals was not immediately available for comment.

"The key question," Thahane said, "is how quickly can we implement (the macroeconomic plan), even though substantial progress has been made in some aspects. I hope there will be accelerated implementation of the macroeconomic framework to establish a track record of performance..."

He reiterated the Bank's commitment to advising the government to phase out remaining exchange controls gradually, rather than in a sudden policy change, regardless of how quickly the liberalisation of controls could be carried out.

"(We are) like a broken record on exchange controls: gradual elimination," he said.

He said the Bank was already moving toward decentralising the administration of some of the existing controls. Authorised dealers could soon make certain transactions like selling travellers their legal allowance of foreign currency for overseas trips without having to get Reserve Bank approval.

He said the Bank would inspect those dealers' books and look into any irregularities very seriously. The Bank hoped its decentralisation programme would streamline many foreign-exchange transactions and cut down their turnaround time.

Thahane said it was too early to speculate on the likelihood that he would succeed Stals as governor.

Among his briefs at the Bank are responsibility for exchange control and the Bank's economics department.

# Forward cover book 'will show R5bn loss'

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — The rand's fall of almost 30 percent against the dollar since February will result in the Reserve Bank realising a net loss of about R5 billion on its forward cover book in the 12 months to next March 31, said Vic de Klerk, a director and economist at stockbroker PLJ van Rensburg.

He said in a newsletter to clients that the loss would equal one-third of the total losses incurred by the Bank in forward-cover transactions in the previous 14 years.

The Bank administers the forward cover book on behalf of the treasury. Realised losses are for the treasury's account. This means that, ultimately, taxpayers could take the loss.

De Klerk said there could be another R10 billion of unrealised losses on the book at the end of next March. Bertus van Zyl, the head of the department administering the forward cover book in the Bank, declined to comment on De Klerk's calculations yesterday.

The book's net open position has jumped recently from $6,8 billion early in February to $14,3 billion.

The outlook for the book dimmed soon after the treasury issued zero-coupon bonds of R3,1 billion at end-March to wipe out the book's remaining losses.

Between 1983 and this year, the Reserve Bank made a net profit on its forward-cover transactions in only five financial years, including the one that ended in March. The Bank's net loss since 1983 has been R17,2 billion, De Klerk said.

# Manuel sets tough Budget of R186bn

(49)

ST(BT) 24/11/96

## The government has shown it is serious about fiscal discipline by planning a real cut in spending, writes SVEN LUNSCHE

THE government has backed a R185,5-billion Budget for the 1997/98 fiscal year — the first time in years that the state intends cutting expenditure in real terms.

Documents with Business Times show the spending figure was approved at a Cabinet meeting last month. It signals Finance Minister Trevor Manuel's determination to put the country on the road to financial discipline.

If Manuel can resist the inevitable demands by state departments and provinces for increased allocations, the 1997/98 Budget will result in a spending cut of at least 2% in real terms — that is after inflation, which is expected to average 9% next year.

State expenditure is on track to meet its budgeted target of R173,7-billion in the current fiscal year.

The sharp cuts in state spending are essential if Manuel is to meet the Budget deficit targets set out in his Growth, Employment and Redistribution plan.

Achieving these targets is rapidly becoming the yardstick of the government's willingness and ability to implement the ambitious strategy, which has raised the anger of factions in the ANC-Cosatu-SACP alliance.

For 1997/98, government has set a deficit target of 4% of GDP, a marked decline from this year's budgeted 5,1%.

At a spending level of R185,5-billion, the 4% deficit target will require government to raise about R160-billion in taxes and duties in 1997/98, an increase of 10,4% on this year's budgeted figure of R144,9-billion.

Maria Ramos, the director-general of finance, did not confirm the 1997/98 Budget figures but indicated real spending cuts were necessary to achieve the proclaimed deficit targets.

"We are committed to the 4% deficit target and to implementing structural reforms in government to achieve it," Ramos said.

She said the government was not looking at increasing VAT to achieve the revenue targets, but was relying on "much-improved" revenue collection.

Economists have warned that this week's hike in interest rates could have a severe impact on state tax income as it could slow economic growth from about 2,5% to 2% next year. This view is not shared by Ramos who said the rate increase would calm financial markets but not adversely affect next year's growth rate.

She said the slowdown in domestic consumer spending should be offset by an improvement in the balance of payments.

According to the documents, the R185,5-billion expenditure budget includes a contingency reserve of R1-billion and an unallocated reserve of R2,4-billion. They would be used to finance national disasters and "unmanageable" expenditure in the provinces respectively.

Nedcor economist Denis Dykes said the cuts in spending scheduled for 1997/98 would require speedy implementation of planned retrenchments in the civil service. The government had previously

MARIA RAMOS

announced that about 100 000 jobs could be cut in 1997 but Dykes noted this process had not yet been started.

The document states that just over R3-billion would be allocated to new salary improvements in 1997/98.

Voluntary severance packages would be terminated by March next year and no extra provisions allowed for retrenchment costs or severance packages.

Further pressure on expenditure will emanate from South Africa's rising debt servicing bill. Manuel said earlier this week that the government would have to spend R41-billion on interest payments in fiscal 1997/98.

He warned that government debt could become the largest single Budget item if it was not kept in check.

On a positive note, the government will receive the first tranche of privatisation proceeds in March next year. The sale of 30% of Telkom could raise about R6-billion and more could follow with the unexpected acceleration of the privatisation programme over the past few weeks.

Ramos said privatisation proceeds would not be included in the overall Budget and would be used only to finance capital spending.

# SA economy mostly not free, survey says

## *Bad marks for trade, taxation*

ARG 16/12/96 (49)

**RICH MKHONDO**
WASHINGTON BUREAU

**Washington – South Africa's economic policies are "mostly not free," according to an American agency and an influential newspaper in their index of economic freedom.**

But even though the Heritage Foundation and the Wall Street Journal gave the country an overall mark of three and ranked South Africa 73 out of 150 countries they surveyed, the index lauded the transition to democracy, saying it had gone well and national reconciliation had been impressive.

The paper and foundation gave South Africa three points in corporate taxation, government intervention in the economy, monetary policy, banking and property rights. The best score is one (very free) and the worst one is five (repressed).

South Africa scored two points in capital inflows and foreign investment, wage and price controls. The country did worst – five points – in trade policy followed by four points in taxation.

"Under the terms of the Import and Export Control Act, South Africa's Minister of Trade and Industry may act in the national interest to prohibit, ration, or otherwise regulate imports.

"In recent years, the list of restricted goods requiring import permits has been reduced, but still includes such goods as foodstuffs, clothing fabrics, footwear, wood, paper and paper products, refined petroleum products and chemicals," the index said in giving South Africa its worst mark of five in trade policies.

But under taxation the index said: "South Africa has a progressive tax system, with the biggest income level taxed at a rate of 45 percent and the average income level taxed at a rate of 17 percent. The corporate tax is 35 percent."

In giving South Africa its best score of two in capital flows, foreign investment and wage and price controls, the 1997 Index said: "No government approval is required for foreign investment and foreign investors are subject to the same laws as domestic investors. Price controls, once pervasive, now exist only on coal, gasoline and some utilities. There is no national minimum wage, but labour legislation could lead to the de facto imposition of wage-controls."

The index is often used by US lawmakers as they decide how to allocate foreign assistance, but it is not clear if the Republican Party-controlled US Congress. economists, investors and trade representatives also use the rating when considering countries they should do business with."

Of the 40 sub-Saharan African countries evaluated in the annual survey, only one, Swaziland earned a "free" rating.

Swaziland, ranked 50 among 150 of the world's 191 countries surveyed by the foundation, has the "freest" economy in sub-Saharan Africa while Somalia and Libya have the most economically repressed countries. But the mountain kingdom fares badly when it is compared with the rest of the world.

South Africa was among 26 countries which was given a "mostly unfree" rating.

"We found that countries with the most economic freedom have higher rates of economic growth than those with less economic freedom," the 520-page book said.

Only eight countries and territories earned scores of "free". The country with the most economic freedom is Hong Kong.

The foundation and the paper said its researchers found that foreign aid impeded economic growth in poor countries.

"Instead of helping poor countries lift themselves out of poverty, development aid often impedes their economic growth."

# Lukewarm rating for SA economy

Sowetan 23/12/96

## Trade policy seen as too restrictive

By Rich Mkhondo

WASHINGTON – South Africa's economic policies are "mostly not free", an American agency and an influential newspaper said in their annual index of economic freedom.

But even though the Heritage Foundation and the *Wall Street Journal* gave the country a lowly overall mark of three and ranked South Africa 73 out of 150 countries they surveyed, the index lauded the transition to democracy, saying it has gone well and national reconciliation has been impressive.

The newspaper and foundation gave South Africa three points in corporate taxation, government intervention in the economy, monetary policy, banking and property rights. The best score is one (very free) and the worst is five (repressed).

South Africa scored two points for capital inflows and foreign investment, wage and price controls. The country did worst – five points – for trade policy, followed by four points for taxation.

"In the terms of the Import and Export Control Act, South Africa's Minister of Trade and Industry may act in the national interest to prohibit, ration or otherwise regulate imports.

### Import permits

"In recent years, the list of restricted goods requiring import permits has been reduced, but it still includes such goods as foodstuffs, clothing fabrics, footwear, wood, paper and paper products, refined petroleum products and chemicals," the index rationalised in giving South Africa its worst mark of five for trade policies.

Under taxation, the index noted: "South Africa has a progressive tax system, with the biggest income level taxed at a rate of 45 percent and the average income level taxed at a rate of 17 percent. Corporate tax is 35 percent."

In giving South Africa its best score of two for capital flows, foreign investment and wage and price controls, the 1997 index said: "No government approval is required for foreign investment and foreign investors are subject to the same laws as domestic investors.

"Price controls, once pervasive, now exist only on coal, gasoline (petrol) and some utilities. There is no national minimum wage, but labour legislation could lead to the *de facto* imposition of wage controls."

The index is often used by United States lawmakers in deciding how to allocate foreign assistance. Economists, investors and trade representatives also use the rating when considering countries they should do business with.

**Trade and Industry Minister Alec Erwin ... South Africa faired badly in a recent survey partly because the Minister may prohibit, ration or otherwise regulate imports.**

Of the 40 sub-Saharan African countries evaluated in the annual survey, only one, Swaziland, earned a "free rating". It ranked 50 among 150 of the world's 191 countries surveyed by the foundation and has the "freest" economy in sub-Saharan Africa.

Somalia and Libya have the most economically repressed countries.

South Africa was among 26 countries which received a "mostly unfree" rating. "We found that countries with the most economic freedom have higher rates of economic growth than those with less economic freedom," the 520-page book said.

### Hong Kong

Only eight countries and territories earned scores of "free". The country enjoying the most economic freedom is Hong Kong, followed by Singapore, Bahrain and New Zealand.

Switzerland and the US tied at fifth, and the United Kingdom and Taiwan tied at seventh.

In Africa the seven countries ranked as economically repressed are: Mozambique (133); Rwanda, Sudan and Zaire tied for 136; and Angola, Libya and Somalia (141).

The seven countries that qualify as "mostly free" are Namibia, Gabon and Benin, all tied for the 67th spot, Uganda (64), Zambia and Botswana (59th).

The foundation and newspaper said its researchers found that foreign aid impeded economic growth in poor countries. "Instead of helping poor countries lift themselves out of poverty, development aid often impedes their economic growth," said Heritage analyst Bryan Johnson.– *Independent Foreign Service.*